SmarTone Telecommunications Holdings Limited

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

2017 / 2018 INTERIM RESULTS ANNOUNCEMENT

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

- SmarTone's focus on a customer-centric strategy has helped create resilient performance in its core service business in a period of intense competition
- The Company's customer base increased 10% year-on-year to 2.2 million while average postpaid churn rate reached a low of 0.8%
- Postpaid service revenue, net of handset subsidy amortisation, has remained stable against the previous corresponding period, and increased 3% over the previous half
- Despite the strength of the service business, profitability has been impacted by an increase in amortisation of spectrum utilisation fee, and lower handset and accessory sales. Group net profit declined by 17% year on year. On a half-on-half basis, group net profit increased 18%
- In line with the Company's full year dividend policy of 75% payout ratio, the Board declared an interim dividend of 18 cents per share

CHAIRMAN'S STATEMENT

Business review

During the period under review, the market has witnessed an intensification of competition from incessant price-discounting. SmarTone has continued to lead with a customer-centric strategy, and strengthened its brand position through anchoring on the twin pillars of the 'powerful network' and superior customer experience. The Company's customer-centric approach has helped achieve growth in customer base of 10% year-on-year to 2.2 million and reduction of average postpaid churn rate to a low of 0.8%. The core service business was resilient as underlying postpaid service revenue, net of handset subsidy amortisation, remained stable against the previous corresponding period and increased 3% over the previous half. Despite a larger customer base and rising data usage, operating costs increased only 1% year-on-year, thanks to tight cost control and ongoing productivity improvement programs.

Notwithstanding the resilience of the core service business, several factors have continued to impact profitability compared to the previous corresponding period. First, amortisation of spectrum utilisation fee has increased as the Company renewed and acquired additional 2100MHz spectrum in October 2016. Second, handset and accessories sales were lower due to customers' longer handset replacement cycle. Third, roaming revenue decreased due to the ongoing structural decline in voice roaming, though the rate of decline has slowed as the weakness in voice roaming is increasingly offset by healthy growth in data roaming revenue. As a result, group net profit for the period was $328 million, reflecting a 17% year-on-year decline. Compared to the previous half, group net profit increased 18%.

The key tenets of SmarTone's brand proposition are exceptional network performance and outstanding customer care. SmarTone's continuous network investment makes it one of Hong Kong's leading operators in the evolution to 5G. In October 2017, the Company was the first operator in the city to trial FDD Massive MIMO, a technology which will play a crucial role in improving capacity and user throughput. Moreover, after successfully conducting Hong Kong's first LAA trial in August 2017, SmarTone plans to implement the latest LAA technology in mid-2018 which will support peak network speed exceeding 1Gbps.

The Enterprise Solutions business segment, which delivers industry-specific applications and platforms as well as innovative ICT solutions, has enjoyed robust growth. Recently, SmarTone held the industry's first Hackathon and established the SmarTone Innovation Hub. Both initiatives helped foster relationships with startups and drive cross-industry collaboration in the development of ICT solutions.

During the period under review, the Company has deepened its focus on segmentation and digitalisation to improve customer experience, as reflected in the expanding capabilities of the SmarTone CARE App and the relaunch of the SmarTone Plus loyalty program. In addition, the Company launched a new brand campaign introducing SmarTone 5S, the new standard defining quality in mobile service centered on Speed, Stability, Seamlessness, Security and Service.

As an example of the Company's focus in investing in new technologies, SmarTone kicked off the beta-launch of Birdie Mobile in January 2018. Birdie Mobile is Hong Kong's first all-digital self-service mobile brand targeting the millennial e-generation's digital lifestyle. It offers innovative services in line with the sharing economy, such as P2P data sharing and community building features to customers. Birdie customers have access to all these innovative services at their fingertips through the Birdie app. Birdie Mobile's full launch will take place by Q1 2018.

Dividend

In line with the Company's dividend policy, the Board declared an interim dividend of 18 cents (31 Dec 2016: 27 cents) per share. The Board expects total full-year dividend payout to be equivalent to 75% of annual profit attributable to shareholders. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

Outlook

The operating environment is very challenging and will likely remain so in the near-term. Intense competitive pressure is expected to continue, exerting pressure on price plans. Customers' longer handset replacement cycle will continue to impact on handset sales.

SmarTone's customer-centric strategy will further facilitate growth in the core service business through the Company's distinctive brand and superior service offerings for target customer segments.

Enterprise Solutions will continue to be a major growth area for the Company. Recently, the Government announced the Smart City Blueprint which emphasises the role of IoT and 5G technologies in enabling smart living. By leveraging on the Company's IoT-enabled end-to-end platforms, SmarTone is set to capture business opportunities arising from the Smart City transformation in the coming years.

The Board is confident that the Company is well-placed to be successful. SmarTone will continue to make investments to strengthen fundamentals and propositions to customers.

Appreciation

During the period under review, Mr. Yang Xiang-dong, retired by rotation as Independent Non-Executive Director. I would like to thank Mr. Yang for his valuable contribution at SmarTone over the years.

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

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 13 February 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Review of financial results

During the period under review, Hong Kong customer number increased by 10% year-on-year and 7% half-on-half. Postpaid churn rate improved to 0.8% despite intensified competition.

Group service revenue fell by $152 million or 6% to $2,522 million (first half of 2016/17: $2,674 million) amid continuing customer migration from handset-bundled plans to SIM-Only plans, lower revenue from prepaid products and structural decline in voice roaming. Mobile postpaid ARPU was $262 (first half of 2016/17: $299). Compared with the second half of 2016/17, Group service revenue rose by $35 million or 1% (second half of 2016/17: $2,487 million), mainly amid higher roaming revenue.

Customer migration from handset bundled plans to SIM-Only plans masked a better underlying trend in revenue as there was a corresponding reduction in handset subsidy amortisation. Handset subsidy amortisation fell by $110 million or 41% to $155 million when compared with $265 million for the first half of 2016/17. Postpaid service revenue net of handset subsidy amortisation was stable year-on-year and increased 3% over the previous half.

Roaming revenue declined 2% year-on-year as healthy growth in data roaming largely offset weakness in voice roaming. Roaming revenue made up of 15% of Group's service revenue (first half of 2016/17: 14%).

During the period under review, Group's handset and accessory sales fell by $1,113 million or 41% to $1,586 million when compared with $2,699 million for the first half of 2016/17. As a result, the Group's total revenue decreased by 24% to $4,108 million (first half of 2016/17: $5,372 million).

Compared with the second half of 2016/17, Group's handset and accessories sales rose by $729 million or 85%. Both sales volume and average unit selling price rose amid launch of a hero handset during the period under review.

Cost of inventories sold fell by $1,108 million or 42% to $1,547 million when compared with $2,655 million for the first half of 2016/17. Such decline was broadly in line with the decrease in handset and accessory sales. Compared with the second half of 2016/17, cost of inventories sold rose by $699 million or 82%, in line with the corresponding increase in handset and accessory sales.

While serving an enlarged customer base with continuing increase in data usage, the Company kept the increase in operating costs to 1% year-on-year, through various productivity improvement programs. Staff costs fell by $14 million or 4% to $358 million (first half of 2016/17: $372 million). Other operating expenses rose by $26 million or 2% to $1,122 million when compared with $1,096 million for the first half of 2016/17.

Depreciation and loss on disposal fell by $13 million to $329 million when compared with $342 million for the first half of 2016/17 amid impact of fully depreciated assets. Compared with the second half of 2016/17, depreciation and loss on disposal fell slightly by $4 million or 1% (second half of 2016/17: $333 million).

Spectrum utilisation fee amortisation rose by $29 million or 26% to $143 million (first half of 2016/17: $114 million) amid higher amortisation for the renewed and additional 2100MHz spectrum. Mobile license fee amortisation remained stable compared with the previous half.

Finance income rose slightly by $1 million to $29 million (first half of 2016/17: $28 million). Compared with the second half of 2016/17, finance income rose by $6 million (second half of 2016/17: $24 million) amid higher interest income from bank deposits due to increase in cash and bank balance and higher deposit rates.

Finance costs fell by $5 million to $64 million when compared with $70 million for the first half of 2016/17 amid lower accretion expenses on mobile license fee liabilities. Compared with $68 million for the second half of 2016/17, finance costs fell slightly by $3 million.

Income tax expenses amounted to $93 million (first half of 2016/17: $97 million), reflecting an effective tax rate of 22.4% (first half of 2016/17: 19.9%). The increase in the effective tax rate was due to a higher amortisation expense for certain spectrum utilisation fees (treated as non-deductible expense) for the renewed and additional 2100MHz spectrum. In light of the uncertainty of the tax deductibility of the spectrum utilisation fees, these payments have been treated as non-deductible on cash or amortisation basis. Group effective tax is therefore higher than 16.5%.

Macau operations reported an operating loss of $13 million (first half of FY16/17: $17 million, second half of FY16/17: $8 million).

During the period under review, Group EBITDA fell by 13% to $1,080 million (first half of 2016/17: $1,249 million). Group service operating profit was $414 million, representing a 14% decline as compared with same period last year due to increase in spectrum fee amortisation, lower prepaid and roaming revenue. Group profit attributable to shareholders fell by 17% to $328 million (first half of 2016/17: $393 million).

Compared with the second half of 2016/17, Group EBITDA rose by 3% (second half of 2016/17: $1,048 million), while service operating profit rose by 5% amid higher roaming revenue. Group profit attributable to equity holders of the Company rose by 18% (second half of 2016/17: $279 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 2017, the Group recorded share capital of $112 million, total equity of $4,741 million and total borrowings of $2,629 million.

The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits and short-term bank deposits) of $1,754 million as at 31 December 2017 (30 June 2017: $1,274 million).

As at 31 December 2017, the Group had bank and other borrowings of $2,629 million (30 June 2017: $2,691 million) of which 81% were denominated in United States dollars and were arranged on a fixed rate basis. Net debt, after deducting cash and held-to-maturity debt securities, amounted to $270 million (30 June 2017: $705 million). Net debt to EBITDA (annualised) was 0.1X as at 31 December 2017 (30 June 2017: 0.3X).

The Group had net cash generated from operating activities and interest received of $1,376 million and $31 million respectively during the period ended 31 December 2017. The Group's major outflows of funds during the period were purchases of fixed assets, additions of handset subsidies, payment for repurchases of shares, dividends and 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 2018 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 held-to-maturity debt securities. Bank deposits and held-to-maturity debt securities 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

As at 31 December 2017, certain bank deposits of the Group, in aggregate amount of $2 million (30 June 2017: $2 million), were pledged for securing guarantees issued by the banks. In addition, certain Hong Kong dollar denominated bank borrowings were secured by certain assets of the Group and the carrying amount of the pledged assets amounted to $79 million as at 31 December 2017 (30 June 2017: $80 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 19% of the Group's total borrowings at 31 December 2017. The remaining 81% of the Group's borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential rising 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, available-for-sale financial assets, held-to-maturity debt securities, trade payables and bank and other borrowings denominated in United States dollars. The Group does not currently undertake any foreign exchange hedging.

Contingent liabilities

Performance bonds

Certain banks, on the Group's behalf, had issued performance bonds to the telecommunications authorities of Hong Kong and Macau in respect of obligations under mobile licences issued by those authorities. The total amount outstanding as at 31 December 2017 under these performance bonds was $205 million (30 June 2017: $305 million).

Employees and share option scheme

The Group had 1,960 full-time employees as at 31 December 2017 (30 June 2017: 1,994), with the majority of them based in Hong Kong. Total staff costs were $358 million for the period ended 31 December 2017 (first half of 2016/17: $372 million).

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

The Group has share option schemes under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. 3,000,000 (30 June 2017: 3,000,000) share options were outstanding as at 31 December 2017.

RESULTS

The Board of Directors of SmarTone Telecommunications Holdings Limited (the "Company") is pleased to present the consolidated profit and loss account and consolidated statement of comprehensive income for the six months ended 31 December 2017 and the consolidated balance sheet as at 31 December 2017 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 2017

	Note	Unaudited six months ended 31 December **2017** **$000**	2016 $000
Service revenue		**2,521,674**	2,673,627
Handset and accessory sales		**1,585,903**	2,698,677
Revenues	4	**4,107,577**	5,372,304
Cost of inventories sold		**(1,547,406)**	(2,655,218)
Staff costs		**(358,102)**	(372,037)
Other operating expenses		**(1,122,042)**	(1,096,478)
Depreciation, amortisation and loss on disposal	7	**(627,192)**	(721,207)
Operating profit		**452,835**	527,364
Finance income	5	**29,189**	28,247
Finance costs	6	**(64,259)**	(69,701)
Profit before income tax	7	**417,765**	485,910
Income tax expense	8	**(93,455)**	(96,576)
Profit after income tax		**324,310**	389,334
Attributable to			
Equity holders of the Company		**328,117**	393,399
Non-controlling interests		**(3,807)**	(4,065)
		324,310	389,334
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	9		
Basic		**29.8**	36.4
Diluted		**29.8**	36.4

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2017

	Unaudited six months ended 31 December	
	2017	2016
	$000	$000
Profit for the period	**324,310**	389,334
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit and loss:		
Fair value loss on financial investments, net of tax	**(686)**	(1,624)
Currency translation differences	**2,082**	(1,859)
Other comprehensive income/(loss) for the period, net of tax	**1,396**	(3,483)
Total comprehensive income for the period	**325,706**	385,851
Total comprehensive income attributable to		
Equity holders of the Company	**329,513**	389,916
Non-controlling interests	**(3,807)**	(4,065)
	325,706	385,851

Condensed Consolidated Balance Sheet
As at 31 December 2017 and 30 June 2017

	Note	**Unaudited 31 December 2017 $000**	Audited 30 June 2017 $000
Non-current assets			
Leasehold land and land use rights		**11,521**	11,383
Fixed assets		**2,960,735**	3,071,725
Interest in an associate		**3**	3
Financial investments		**549,722**	672,528
Intangible assets		**3,649,599**	3,631,399
Deposits and prepayments		**116,628**	91,076
Deferred income tax assets		**5,899**	6,130
		7,294,107	7,484,244
Current assets			
Inventories		**264,290**	181,703
Financial investments		**62,558**	47,568
Trade receivables	11	**364,431**	321,450
Deposits and prepayments		**155,445**	167,188
Other receivables		**51,046**	47,002
Tax reserve certificate		**252,362**	252,362
Pledged bank deposits		**2,385**	2,385
Short-term bank deposits		**-**	124,893
Cash and cash equivalents		**1,751,229**	1,146,795
		2,903,746	2,291,346
Current liabilities			
Trade payables	12	**890,093**	357,393
Other payables and accruals		**603,333**	804,562
Current income tax liabilities		**371,504**	399,342
Bank borrowings		**134,552**	133,636
Customer prepayments and deposits		**230,968**	224,202
Deferred income		**217,724**	206,023
Mobile licence fee liabilities		**59,280**	60,040
		2,507,454	2,185,198
Non-current liabilities			
Customer prepayments and deposits		**133,667**	47,044
Asset retirement obligations		**45,799**	47,378
Bank and other borrowings		**2,494,295**	2,557,049
Mobile licence fee liabilities		**142,376**	167,886
Deferred income tax liabilities		**132,858**	136,738
		2,948,995	2,956,095
Net assets		**4,741,404**	4,634,297

Condensed Consolidated Balance Sheet
As at 31 December 2017 and 30 June 2017

	Unaudited 31 December 2017 $000	Audited 30 June 2017 $000
Capital and reserves		
Share capital	**112,118**	110,581
Reserves	**4,592,359**	4,482,982
Total equity attributable to equity holders of the Company	**4,704,477**	4,593,563
Non-controlling interests	**36,927**	40,734
Total equity	**4,741,404**	4,634,297

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 information ("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 13 February 2018.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2017 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2017, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 30 June 2018.

(a) Amendments to standards relevant to and adopted by the Group

The following amendments to standards are mandatory and relevant to the Group for the financial year beginning on 1 July 2017.

HKAS 7 (Amendments)	Statement of Cash Flows
HKAS 12 (Amendments)	Income Taxes
HKFRS 12 (Amendments)	Disclosure of Interest in Other Entities

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.

3 Accounting policies *(continued)*

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

The following new standards, amendments to standards and interpretations to existing standards have been issued but are not yet effective for the financial year beginning 1 July 2017 and have not been early adopted.

Annual Improvements Project	Annual Improvements 2014-2016 Cycle[1]
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures[1]
HKAS 40	Investment Property[1]
HKFRS 1 (Amendment)	First Time Adoption of HKFRS[1]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instruments[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration[1]
HK (IFRIC) 23	Uncertainty over Income Tax Treatments[2]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after a date to be determined.

The adoption of HKFRS 15 and HKFRS 16 will likely have a significant impact. The Group is in the process of assessing the impact. For other new standards, amendments to standards and interpretations to existing standards, the Group is assessing the impact and is not yet in a position to state whether they would have a significant impact on the Group's results of operation and financial position.

4 Segment information

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

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

4 Segment information *(continued)*

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

(a) Segment results

	Unaudited six months ended 31 December 2017			
	Hong Kong $000	**Macau $000**	**Elimination $000**	**Consolidated $000**
Revenues	**4,049,325**	**249,245**	**(190,993)**	**4,107,577**
EBITDA	**1,067,805**	**12,222**	**-**	**1,080,027**
Depreciation, amortisation and loss on disposal	**(602,209)**	**(24,991)**	**8**	**(627,192)**
Operating profit/(loss)	**465,596**	**(12,769)**	**8**	**452,835**
Finance income				**29,189**
Finance costs				**(64,259)**
Profit before income tax				**417,765**

	Unaudited six months ended 31 December 2016			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
Revenues	5,292,994	217,481	(138,171)	5,372,304
EBITDA	1,236,712	11,859	-	1,248,571
Depreciation, amortisation and loss on disposal	(692,605)	(28,611)	9	(721,207)
Operating profit/(loss)	544,107	(16,752)	9	527,364
Finance income				28,247
Finance costs				(69,701)
Profit before income tax				485,910

4 Segment information *(continued)*

(b) Segment assets/(liabilities)

	At 31 December 2017 (Unaudited)			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**8,905,672**	**421,637**	**870,544**	**10,197,853**
Segment liabilities	**(4,824,118)**	**(127,969)**	**(504,362)**	**(5,456,449)**

	At 30 June 2017 (Audited)			
	Hong Kong	Macau	Unallocated	Consolidated
	$000	$000	$000	$000
Segment assets	8,435,773	361,226	978,591	9,775,590
Segment liabilities	(4,453,512)	(151,701)	(536,080)	(5,141,293)

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

5 Finance income

	Unaudited six months ended 31 December	
	2017	2016
	$000	$000
Interest income from listed debt securities	**16,201**	21,868
Interest income from bank deposits	**11,159**	6,062
Gain on disposal of listed debt securities	**1,391**	-
Accretion income	**438**	317
	29,189	28,247

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.

6 Finance costs

	Unaudited six months ended 31 December	
	2017	2016
	$000	$000
Interest expense		
Bank and other borrowings	**45,168**	48,187
Bank charges for credit card instalment	**5,496**	2,310
Accretion expenses		
Mobile licence fee liabilities	**12,010**	19,021
Asset retirement obligations	**694**	741
Net exchange loss/(gain) on financing activities	**891**	(558)
	64,259	69,701

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

7 Profit before income tax

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

	Unaudited six months ended 31 December	
	2017	2016
	$000	$000
Charging:		
Cost of services provided	**179,747**	161,522
Operating lease rentals for land and buildings, transmission sites and leased lines	**533,056**	516,781
Impairment loss of trade receivables (note 11)	**6,041**	10,396
Net exchange loss	**3,762**	-
Loss on disposal of fixed assets	**4,346**	960
Depreciation of fixed assets, leasehold land and land use rights	**324,650**	341,408
Amortisation of handset subsidies	**155,461**	265,309
Amortisation of mobile licence fees	**142,735**	113,530
Share-based payments	**1,224**	2,013
Crediting:		
Reversal of impairment loss of inventories	**2,008**	4,624
Net exchange gain	**-**	1,041

8 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the period. Income tax on overseas profits has been calculated on the estimated assessable profit for the period at the tax rates prevailing in the countries in which the Group operates.

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

	Unaudited six months ended 31 December	
	2017	**2016**
	$000	**$000**
Current income tax		
Hong Kong profits tax	**94,953**	**95,980**
Overseas tax	**696**	**768**
Under/(over)-provision in prior years		
Hong Kong profits tax	**1,455**	**-**
Overseas tax	**-**	**(3,188)**
	97,104	**93,560**
Deferred income tax	**(3,649)**	**3,016**
	93,455	**96,576**

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

9 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue.

	Unaudited six months ended 31 December	
	2017	2016
Profit attributable to equity holders of the Company ($000)	**328,117**	393,399
Weighted average number of ordinary shares in issue	**1,100,394,473**	1,080,874,643
Basic earnings per share (cents per share)	**29.8**	36.4

9 Earnings per share *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	Unaudited six months ended 31 December	
	2017	2016
Profit attributable to equity holders of the Company ($000)	**328,117**	393,399
Weighted average number of ordinary shares for diluted earnings per share	**1,100,394,473**	1,080,874,643
Diluted earnings per share (cents per share)	**29.8**	36.4

10 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2017	2016
	$000	$000
Interim dividend declared of 18 cents (2016: 27 cents) per share	**201,813**	294,130

At a meeting held on 13 February 2018, the directors declared an interim dividend of 18 cents per share for the year ending 30 June 2018. 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 2018.

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

10 Dividends *(continued)*

(b) Attributable to prior year paid in the period

	Unaudited six months ended 31 December	
	2017	2016
	$000	$000
Final dividend of 33 cents (2016: 33 cents) per share	**361,355**	356,167

11 Trade receivables

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

	Unaudited 31 December 2017	Audited 30 June 2017
	$000	$000
Current to 30 days	**310,415**	275,258
31 - 60 days	**31,149**	26,457
61 - 90 days	**10,731**	12,951
Over 90 days	**12,136**	6,784
	364,431	321,450

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

The Group has recognised a loss of $6,041,000 (2016: $10,396,000) for the impairment of its trade receivables during the six months ended 31 December 2017. The loss has been included in “other operating expenses” in the condensed consolidated profit and loss account.

12 Trade payables

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

	Unaudited 31 December 2017 $000	Audited 30 June 2017 $000
Current to 30 days	**687,361**	157,533
31 - 60 days	**92,369**	85,232
61 - 90 days	**39,535**	49,759
Over 90 days	**70,828**	64,869
	890,093	357,393

INTERIM DIVIDEND

The Directors declared an interim dividend of 18 cents per share for the six months ended 31 December 2017 (2016: 27 cents). The interim dividend will be payable in cash, with an option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme (the “Scrip Dividend Scheme”). The Directors may, after having made enquiry regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in relation to the Scrip Dividend Scheme, exclude any shareholder outside Hong Kong from the Scrip Dividend Scheme provided that the Directors consider such exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. Such shareholders will receive the interim dividend in cash. A circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Monday, 12 March 2018.

The Scrip Dividend Scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme.

The interim dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent on or about Friday, 13 April 2018 to shareholders whose names appear on the Register of Members of the Company on Friday, 2 March 2018.

CLOSURE OF REGISTER OF MEMBERS

The record date for entitlement to the interim dividend is Friday, 2 March 2018. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Friday, 2 March 2018 during which no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 1 March 2018.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 31 December 2017, the Company repurchased 12,774,500 shares of the Company on The Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled prior to 31 December 2017. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid
		$	$	$
July 2017	392,000	10.10	10.08	3,959,000
August 2017	3,649,500	9.73	9.55	35,086,000
September 2017	6,754,500	9.67	9.20	63,379,000
November 2017	1,978,500	9.20	9.09	18,112,000
	12,774,500			120,536,000

The Directors considered that the repurchases could lead to an enhancement of the Company’s net asset value per share and/or the earnings per share. Save as disclosed above, at no time during the six months ended 31 December 2017 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 2017 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 2017 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 2017, the Company has applied the principles and complied with the requirements set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules, except for the following deviations:

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

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Code Provision E.1.2 of the CG Code also provides that the chairman of the board should attend the annual general meeting. Mr. Kwok Ping-luen, Raymond, Non-Executive Director and Chairman of the Board, and Mr. Yang Xiang-dong, Mr. Gan Fock-kin, Eric and Mr. Lam Kwok-fung, Kenny, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 2 November 2017 due to overseas commitments or other prior engagements. The remaining eight Independent Non-Executive Directors and Non-Executive Directors (representing 67% of all independent non-executive and non-executive members of the Board at the time) attended the said meeting in person to listen to the views expressed by the shareholders. Mr. Fung Yuk-lun, Allen, a Non-Executive Director of the Company, took the chair of the said meeting pursuant to the Bye-laws of the Company.

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

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

Hong Kong, 13 February 2018

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.