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SmarTone Telecommunications Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 315)

2017 / 2018 ANNUAL RESULTS ANNOUNCEMENT

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

- During the year under review, competition intensified across all market segments
- Strong growth in customer base, increasing 16% to 2.39 million; industry-leading churn rate improved from 1.0% to 0.8%
- Postpaid service revenue, net of handset subsidy amortisation, grew 2%
- Group net profit, however, declined 8% to $615 million, mainly due to weakness in the prepaid segment and an increase in costs, including spectrum fee amortisation
- The Board proposed a final dividend of 23 cents per share, bringing full year dividend to 41 cents per share, in line with the 75% payout policy

CHAIRMAN'S STATEMENT

Business review

During the year, competition has intensified across all segments of the market. To compete effectively, SmarTone continued to focus on delivering a powerful network performance and exceptional customer care. The Company was able to achieve a healthy growth of 16% in the number of customers to 2.39 million. Also, it was able to further reduce postpaid churn rate from 1.0% to 0.8%. Mobile postpaid ARPU declined 10% to $257 due to an expanded customer base and ongoing migration from handset-bundled to SIM Only plans. The latter, coupled with weakness in the prepaid segment, led to a 2% decline in group service revenue.

SmarTone's core postpaid business remained resilient, delivering a 2% growth in underlying service revenue net of handset subsidy amortisation. There was pressure on costs, but as a result of the Company's ongoing productivity improvement programs, cost increase was kept to 2% despite a much larger customer base. Spectrum fee amortisation increased 11%, reflecting the full-year impact of the renewal of 2100MHz spectrum in 2016. The combined effects of the weakness in the prepaid segment and the increase in costs resulted in an 8% decline in group net profit to $615 million.

During the year under review, the Company focused its investment on delivering the Company's 5S brand promise for Speed, Stability, Seamlessness, Security and Service, and in enhancing its offerings for both consumer and enterprise customers. SmarTone's segmentation strategy was reinforced through differentiated service plans designed for customers including families, travelers, professionals and the millennial segments.

The Enterprise Solutions business continued to deliver strong growth. The Company focused on priority industries, including logistics, construction, hospitality, healthcare and property management, with a broad portfolio of industry-specific applications. With the development of machine-to-machine applications and the drive for digitalisation by corporates, SmarTone expects continuous growth in Enterprise Solutions.

To meet the needs of Hong Kong's digital-savvy millennial generation, in July 2017, the Company launched Birdie, Hong Kong's first all-digital self-service mobile brand. Birdie has since received favourable market reception through its all-digital design, innovative product features and simple pricing structure.

The Company's digitalisation initiatives have improved customer experience and increased productivity. Customers can now access a mobile-friendly website with a 'plan advisor' to identify service and price plans most suited to their needs. SmarTone's website also offers a chatbot service to deliver 24x7 digital customer assistance. The SmarTone CARE app has been redesigned to offer both customer care and loyalty reward functionalities. Furthermore, the application of digital tools has led to improved operational effectiveness and efficiency.

Providing customers with a powerful network performance has long been the firm focus of SmarTone's network investment. The Company has refarmed 3G 2100MHz spectrum to LTE to expand capacity and throughput. After successfully conducting trials in Licensed Assisted Access (LAA) in 2017, the Company has started deployment at selected hotspot areas to further enhance customer experience. Following the successful trial of FDD Massive MIMO, preparation for 5G is underway as the Company plans for a field trial later this year.

Dividend

In line with the Company's 75% payout policy, the Board proposed a final dividend of 23 cents, making a full-year dividend of 41 cents per share. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

Outlook

Industry competition is expected to remain intense as pressure on tariffs persists. There is also pressure on costs, both in operation and in spectrum fees. Notwithstanding the ongoing competitive pressure, the Company will continue to focus on customer growth, expansion of the Enterprise Solutions business, and digitalisation initiatives to improve customer experience and drive operational efficiency.

With regards to next generation mobile technology, the Company welcomes the Government's efforts to expedite the release of 5G spectrum. As the spectrum to be released in 2019 is not suitable for territory-wide coverage, SmarTone urges the Government to release additional low frequency spectrum and resolve the restriction zone issue associated with the 3.5GHz band. The resolution of these issues is crucial for establishing a comprehensive territory-wide 5G network and strengthening Hong Kong's position as a competitive global economy.

Appreciation

During the year 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, 5 September 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Review of financial results

During the year under review, Hong Kong customer number increased by 16% year-on-year to 2.39 million despite intense competition, while the average postpaid churn rate improved further from 1.0% to 0.8%, an industry low.

Group's total revenue increased by 15% to $9,988 million (2016/17: $8,715 million), as a result of higher handset and accessory sales.

Group service revenue fell 2% to $5,059 million (2016/17: $5,160 million) amidst continuing customer migration from handset-bundled plans to SIM Only plans and weakness in the prepaid segment. Mobile postpaid ARPU was at an industry-leading $257.

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 $96 million or 22% to $341 million (2016/17: $436 million). Group postpaid service revenue net of handset subsidy amortisation rose by 2%.

Roaming revenue, which made up of 14% of Group's service revenue (2016/17: 14%) rose by 1% as healthy growth in data roaming more than offset weakness in voice roaming. Roaming revenue registered growth for first time in recent years.

Group's handset and accessory sales rose by $1,374 million or 39% to $4,929 million (2016/17: $3,555 million). Both sales volume and average unit selling price increased. Cost of inventories sold rose by $1,363 million or 39% to $4,867 million (2016/17: $3,504 million). Such increase was broadly in line with the increase in handset and accessory sales.

As a result of tight cost control and ongoing productivity improvement programs, operating costs increase was kept to 2% despite a much larger customer base and the launch of Birdie. Staff costs fell by $12 million or 2% to $720 million (2016/17: $733 million).

Depreciation and loss on disposal fell by $11 million or 2% to $664 million (2016/17: $675 million) amid impact of fully depreciated assets.

Spectrum utilisation fee amortisation rose by $29 million or 11% to $285 million (2016/17: $256 million) to reflect the full-year impact of the renewal and additional 2100MHz spectrum in prior year.

Finance income rose by $10 million or 19% to $61 million (2016/17: $52 million) mainly amid higher deposit interest income.

Finance costs fell by $16 million or 12% to $121 million (2016/17: $137 million) mainly amid lower interest expenses on bank borrowings and lower accretion expenses on mobile licence fee liabilities.

Income tax expense amounted to $180 million (2016/17: $177 million), reflecting an effective tax rate of 22.8% (2016/17: 21.0%). The increase in the effective tax rate was due to higher amortisation expense for spectrum utilisation fees (treated as non-deductible expenses) 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 rate is therefore higher than 16.5%.

Macau operations reported an operating loss of $27 million (2016/17: $24 million).

Group EBITDA fell by 7% to $2,136 million (2016/17: $2,296 million). Group service operating profit was $784 million, representing a 11% decline as compared with last year mainly due to weakness in prepaid segment and increase in spectrum utilisation fee amortisation. Group profit attributable to equity holders of the Company fell by 8% to $615 million (2016/17: $672 million). Year-on-year comparison of second half 2017/18 showed some healthy trends as postpaid service revenue net of handset subsidy amortisation, roaming revenue and Group net profit all registered growth.

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 2018, the Group recorded share capital of $112 million, total equity of $4,832 million and total borrowings of $2,430 million.

The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits and short-term bank deposits) of $1,828 million as at 30 June 2018 (30 June 2017: $1,274 million).

As at 30 June 2018, the Group had bank and other borrowings of $2,430 million (30 June 2017: $2,691 million) of which 79% 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 $36 million as at 30 June 2018 (30 June 2017: $705 million). Net debt to EBITDA was 0.02X as at 30 June 2018 (30 June 2017: 0.3X).

The Group had net cash generated from operating activities and interest received of $2,231 million and $63 million respectively during the year ended 30 June 2018. The Group's major outflows of funds during the year were payments for purchase of fixed assets, additions of handset subsidies, repurchase of shares and guaranteed notes, dividends and repayment of 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 2019 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

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 $78 million as at 30 June 2018 (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 21% of the Group's total borrowings at 30 June 2018. The remaining 79% 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, 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 30 June 2018 under these performance bonds was $4 million (30 June 2017: $305 million).

Employees, share option and share award schemes

The Group had 1,898 full-time employees as at 30 June 2018 (30 June 2017: 1,994) with majority of them based in Hong Kong. Total staff costs were $ 720 million for the year ended 30 June 2018 (2016/17: $733 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. During the year under review, no share options were granted, cancelled or lapsed. 3,000,000 (30 June 2017: 3,000,000) share options were outstanding as at 30 June 2018.

During the year under review, 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 year under review, 1,871,800 shares were granted. No shares were vested or lapsed. 1,871,800 shares (30 June 2017: Nil) were outstanding as at 30 June 2018.

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 year ended 30 June 2018 and the consolidated balance sheet as at 30 June 2018 of the Company and its subsidiaries (the "Group"), along with selected explanatory notes.

Consolidated Profit and Loss Account
For the year ended 30 June 2018

	Notes	**2018** **$000**	2017 $000
Service revenue		**5,059,258**	5,160,306
Handset and accessory sales		**4,929,234**	3,555,106
Revenues	4	**9,988,492**	8,715,412
Cost of inventories sold		**(4,867,053)**	(3,503,986)
Cost of services provided		**(368,475)**	(326,691)
Staff costs		**(720,333)**	(732,747)
Other operating expenses		**(1,896,417)**	(1,855,726)
Depreciation, amortisation and loss on disposal	7	**(1,289,773)**	(1,367,617)
Operating profit		**846,441**	928,645
Finance income	5	**61,423**	51,774
Finance costs	6	**(120,909)**	(137,220)
Profit before income tax	7	**786,955**	843,199
Income tax expense	8	**(179,803)**	(177,431)
Profit after income tax		**607,152**	665,768
Attributable to			
Equity holders of the Company		**615,243**	672,102
Non-controlling interests		**(8,091)**	(6,334)
		607,152	665,768
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	9		
Basic		**55.4**	61.7
Diluted		**55.4**	61.7

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2018

	2018 **$000**	2017 $000
Profit for the year	**607,152**	665,768
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit and loss:		
Fair value loss on financial investments, net of tax	**(1,366)**	(2,965)
Currency translation differences	**2,050**	(2,631)
Other comprehensive income/(loss) for the year, net of tax	**684**	(5,596)
Total comprehensive income for the year	**607,836**	660,172
Total comprehensive income attributable to		
Equity holders of the Company	**615,927**	666,506
Non-controlling interests	**(8,091)**	(6,334)
	607,836	660,172

Consolidated Balance Sheet
At 30 June 2018

	Notes	**2018 $000**	2017 $000
Non-current assets			
Leasehold land and land use rights		**11,315**	11,383
Fixed assets		**2,970,680**	3,071,725
Interest in an associate		**3**	3
Financial investments		**486,599**	672,528
Intangible assets		**3,516,902**	3,631,399
Deposits and prepayments		**117,135**	91,076
Deferred income tax assets		**5,542**	6,130
Total non-current assets		**7,108,176**	7,484,244
Current assets			
Inventories		**161,465**	181,703
Financial investments		**86,738**	47,568
Trade receivables	11	**364,757**	321,450
Deposits and prepayments		**172,877**	167,188
Other receivables		**43,645**	47,002
Tax reserve certificate		**252,362**	252,362
Pledged bank deposits		**-**	2,385
Short-term bank deposits		**96,155**	124,893
Cash and cash equivalents		**1,731,951**	1,146,795
Total current assets		**2,909,950**	2,291,346
Current liabilities			
Trade payables	12	**521,620**	357,393
Other payables and accruals		**852,081**	804,562
Current income tax liabilities		**457,389**	399,342
Bank borrowings		**135,789**	133,636
Customer prepayments and deposits		**247,081**	224,202
Deferred income		**222,996**	206,023
Mobile licence fee liabilities		**60,041**	60,040
Total current liabilities		**2,496,997**	2,185,198
Non-current liabilities			
Customer prepayments and deposits		**98,087**	47,044
Asset retirement obligations		**43,027**	47,378
Bank and other borrowings		**2,294,592**	2,557,049
Mobile licence fee liabilities		**127,991**	167,886
Deferred income tax liabilities		**125,708**	136,738
Total non-current liabilities		**2,689,405**	2,956,095
Net assets		**4,831,724**	4,634,297

Consolidated Balance Sheet
At 30 June 2018

	2018 **$000**	2017 $000
Capital and reserves		
Share capital	**112,426**	110,581
Reserves	**4,686,655**	4,482,982
Total equity attributable to equity holders of the Company	**4,799,081**	4,593,563
Non-controlling interests	**32,643**	40,734
Total equity	**4,831,724**	4,634,297

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.

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 5 September 2018.

2 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements 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.

3 Basis of preparation

(a) Compliance with HKFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared on a historical cost basis, except for the available-for-sale financial assets, measured at fair value.

(b) Amended standards adopted by the Group

The Group has applied the following amendments to standards for the first time for their annual reporting period commencing 1 July 2017.

HKAS 7 (Amendments)	Disclosure initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendment)	Disclosure of Interest in Other Entities

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

3 Basis of preparation *(continued)*

(c) 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 2018 reporting periods and have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 2014-2016 Cycle[1]
Annual Improvements Project	Annual Improvements 2015-2017 Cycle[2]
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures[1]
HKAS 40 (Amendments)	Transfers of 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[4]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts [3]
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 1 January 2021.
[4] Effective for annual periods beginning on or after a date to be determined.

None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, "Financial instruments"

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. Furthermore, under the new HKFRS 9, there is a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. Measurement of impairment loss on trade receivable based on an expected credit losses model requires the use of historical data as well as forward looking information. HKFRS 9 also relaxes the requirements for hedge effectiveness but contemporaneous documentation is still required. Management is in the process of assessing the impact of HKFRS 9.

3 Basis of preparation *(continued)*

(c) New standards, amendments to standards and interpretations to existing standards not yet adopted *(continued)*

HKFRS 15, "Revenue from Contracts with Customers"

HKFRS 15 will replace HKAS 18 which deals with contracts for goods and services. HKFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. HKFRS 15 permits adoption using either the full retrospective approach or a modified retrospective approach. The Group intends to use the modified approach when it adopts HKFRS 15 effective 1 July 2018, recognising the cumulative effect of applying HKFRS 15 to all contracts that had not been completed at the beginning of the reporting period as an adjustment to the opening balance of retained profits at the date of first-time adoption i.e. 1 July 2018.

While the Group is continuing to assess the effect of applying HKFRS 15 on the Group's consolidated financial statements, the Group has identified a number of current revenue recognition policies and disclosures that will be impacted by HKFRS 15. The most significant areas are discussed below.

HKFRS 15 will require the identification of deliverables in contracts with customers that qualify as separate "performance obligations". The performance obligations identified will depend on the nature of individual customer contracts. These are expected to include mobile handsets, telecommunications and other equipment, gifts provided free of charge and telecommunications services provided to customers.

Where customer contracts contain more than one performance obligation, the transaction price receivable from customers must be allocated between the Group's performance obligations on a relative standalone selling price basis. The primary impact on revenue reporting will be that when the Group sells telecommunications or other equipment or subsidised mobile handsets together with gifts and telecommunications service agreements to customers, revenue allocated to the equipment, handsets and gifts, which are recognised at contract inception when control typically passes to the customer, will be recorded at their relative standalone selling prices and not using the current residual value method. However, it is expected that there will be no impact on the total revenue to be recognised by the Group in the consolidated profit and loss account over the respective contract periods.

Currently, the Group capitalises subsidised handsets as handset subsidies and amortises these amounts on a straight-line basis over the minimum enforceable contractual periods. Under HKFRS 15, the costs of subsidised handsets and gifts are required to be recognised as costs of goods sold immediately when the corresponding revenue is recognised, rather than the existing treatment of being charged to the consolidated profit and loss account through amortisation of customer acquisition costs. The total net profit recognised by the Group over the full contract period is not expected to be materially affected.

3 Basis of preparation *(continued)*

(c) New standards, amendments to standards and interpretations to existing standards not yet adopted *(continued)*

HKFRS 15, "Revenue from Contracts with Customers" *(continued)*

The new revenue standard introduces specific criteria for determining whether to capitalise certain costs, distinguishing between those costs associated with obtaining a contract and those costs associated with fulfilling a contract. Currently, these costs are expensed as incurred. The accounting for some of these costs will change upon adoption of HKFRS 15. The new standard requires the incremental costs of obtaining contracts to be recognised as an asset when incurred, and amortised over the contract period. Incremental costs of obtaining a contract are those costs that would not have been incurred if the contract had not been obtained (for example, sales commissions payable on obtaining a contract).

HKFRS 16, "Leases"

HKFRS 16 will affect primarily the accounting for the Group's operating leases. The new standard provides a single, on balance sheet lease accounting model for lessees. It will result in almost all leases being recognised by the lessee on the consolidated balance sheet, as the distinction between operating and finance leases is removed. Under HKFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. In addition, the nature of expenses related to those leases will now change as HKFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. With all other variables remain unchanged, the new accounting treatment will lead to a higher EBITDA and EBIT. The combination of a straight-line depreciation of the right-of-use asset and effective interest rate method applied to the lease liability results in a decreasing "total lease expense" over the lease term. In the initial years of a lease, the new standard will result in a profit and loss account expense which is higher than the straight-line operating lease expense typically recognised under the current standard, and a lower expense after the mid-term of the lease as the interest expense reduces. The Group's profit after tax for a particular year may be affected negatively or positively depending on the maturity of the Group's overall lease portfolio in that year.

As a lessee, the Group can either apply the standard using a full retrospective approach, or a modified retrospective approach with optional practical expedients.

The transition accounting under the full retrospective approach requires entities to retrospectively apply the new standard to each prior reporting period presented. Under this transition approach, an entity will require extensive information about its leasing transactions in order to apply the standard retrospectively. This will include historical information about lease payments and discount rates. It will also include the historical information that the entity would have used in order to make the various judgements and estimates that are necessary to apply the lessee accounting model. The information will be required as at lease commencement, and also as at each date on which an entity would have been required to recalculate lease assets and liabilities on a reassessment or modification of the lease.

3 Basis of preparation *(continued)*

(c) New standards, amendments to standards and interpretations to existing standards not yet adopted *(continued)*

HKFRS 16, "Leases" *(continued)*

In view of the costs and massive complexity involved of applying the full retrospective approach, the Group is considering to adopt the modified retrospective approach. Under the modified retrospective approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 16, i.e. 1 July 2019; and (iii) the Group recognises the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained profit (or other component of equity, as appropriate) in the year of adoption, i.e. for the year beginning on 1 July 2019.

The new standard will affect primarily the accounting for the Group's operating leases. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into.

There are no other new standards, amendments to standards and interpretations to existing standards that are not yet effective which would be expected to have a significant impact on the Group's results of operations and financial position.

4 Segment reporting

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

The CODM examines the Group's performance from a geographic perspective based on the location in which the sale originated. The CODM measures the performance of its segments based on earnings before interest, tax, depreciation, amortisation and loss on disposal ("EBITDA") and operating profit.

4 Segment reporting *(continued)*

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

(a) Segment results

	For the year ended 30 June 2018			
	Hong Kong	**Macau**	**Elimination**	**Consolidated**
	$000	**$000**	**$000**	**$000**
External revenue	**9,280,864**	**707,628**	**-**	**9,988,492**
Inter-segment revenue	**563,782**	**6,533**	**(570,315)**	**-**
Total revenue	**9,844,646**	**714,161**	**(570,315)**	**9,988,492**
EBITDA #	**2,114,864**	**21,350**	**-**	**2,136,214**
Depreciation, amortisation and loss on disposal	**(1,241,002)**	**(48,799)**	**28**	**(1,289,773)**
Operating profit/(loss)	**873,862**	**(27,449)**	**28**	**846,441**
Finance income				**61,423**
Finance costs				**(120,909)**
Profit before income tax				**786,955**
Other information				
Additions to fixed assets	**543,895**	**19,324**	**-**	**563,219**
Additions to intangible assets	**506,585**	**8,379**	**-**	**514,964**
Depreciation	**609,991**	**37,910**	**(15)**	**647,886**
Amortisation of leasehold land and land use rights	**672**	**-**	**-**	**672**
Amortisation of intangible assets	**615,701**	**10,364**	**-**	**626,065**
Loss on disposal of fixed assets	**14,638**	**525**	**(13)**	**15,150**
Impairment loss of trade receivables	**9,196**	**1,615**	**-**	**10,811**
(Reversal of impairment loss)/impairment loss of inventories	**(2,932)**	**477**	**-**	**(2,455)**

4 Segment reporting *(continued)*

(a) Segment results *(continued)*

	For the year ended 30 June 2017			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
External revenue	8,323,253	392,159	-	8,715,412
Inter-segment revenue	253,060	7,347	(260,407)	-
Total revenue	8,576,313	399,506	(260,407)	8,715,412
EBITDA #	2,263,047	33,215	-	2,296,262
Depreciation, amortisation and loss on disposal	(1,310,142)	(57,493)	18	(1,367,617)
Operating profit/(loss)	952,905	(24,278)	18	928,645
Finance income				51,774
Finance costs				(137,220)
Profit before income tax				843,199
Other information				
Additions to fixed assets	492,462	21,073	-	513,535
Additions to intangible assets	2,557,544	12,001	-	2,569,545
Depreciation	628,201	41,747	(17)	669,931
Amortisation of leasehold land and land use rights	638	-	-	638
Amortisation of intangible assets	679,229	13,484	-	692,713
Loss on disposal of fixed assets	2,074	2,262	(1)	4,335
Impairment loss of trade receivables	17,407	1,147	-	18,554
(Reversal of impairment loss)/impairment loss of inventories	(3,642)	366	-	(3,276)

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

EBITDA is defined as earnings before interest, tax, depreciation, amortisation and loss on disposal.

4 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 30 June 2018			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**8,886,222**	**300,660**	**831,244**	**10,018,126**
Segment liabilities	**(4,479,696)**	**(123,609)**	**(583,097)**	**(5,186,402)**

	At 30 June 2017			
	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)

The total of non-current assets other than interest in an associate, financial investments and deferred income tax assets located in Hong Kong is $6,397,256,000 (2017: $6,565,670,000), and the total of these non-current assets located in Macau is $218,776,000 (2017: $239,913,000).

Unallocated assets consist of tax reserve certificate, interest in an associate, financial investments and deferred income tax assets.

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

5 Finance income

	2018	2017
	$000	$000
Interest income from listed debt securities	**29,792**	40,820
Interest income from bank deposits	**29,353**	10,275
Gain on disposal of listed debt securities	**1,391**	45
Gain on repurchase of guaranteed notes	**12**	-
Accretion income	**875**	634
	61,423	51,774

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.

6 Finance costs

	2018 $000	2017 $000
Interest expense		
Bank and other borrowings	**88,784**	96,008
Bank charges for credit card instalment	**7,621**	2,692
Accretion expenses		
Mobile licence fee liabilities	**22,456**	31,688
Asset retirement obligations	**1,467**	1,413
Net exchange loss on financing activities	**581**	5,419
	120,909	137,220

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 year.

7 Profit before income tax

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

	2018 $000	2017 $000
Charging:		
Operating lease rentals for land and buildings, transmission sites and leased lines	**1,062,290**	1,043,465
Impairment loss of trade receivables (note 11)	**10,811**	18,554
Auditor's remuneration		
- Audit services	**2,519**	2,527
- Non-audit services	**1,071**	986
Net exchange loss	**8,871**	5,449
Loss on disposal of fixed assets	**15,150**	4,335
Depreciation of fixed assets, leasehold land and land use rights	**648,558**	670,569
Amortisation of handset subsidies	**340,595**	436,448
Amortisation of mobile licence fees	**285,470**	256,265
Crediting:		
Reversal of impairment loss of inventories	**2,455**	3,276

8 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

	2018 **$000**	2017 $000
Current income tax		
Hong Kong profits tax	**187,590**	170,674
Overseas tax	**1,374**	1,323
Under/(over)-provision in prior years		
Hong Kong profits tax	**1,280**	(1,638)
Overseas tax	**1**	(3,187)
Total current income tax expense	**190,245**	167,172
Deferred income tax		
Decrease in deferred income tax assets	**588**	367
(Decrease)/increase in deferred income tax liabilities	**(11,030)**	9,892
Total deferred income tax (benefit)/expense	**(10,442)**	10,259
Income tax expense	**179,803**	177,431

8 Income tax expense *(continued)*

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

	2018 **$000**	2017 $000
Profit before income tax expense	**786,955**	843,199
Tax at the Hong Kong tax rate of 16.5% (2017: 16.5%)	**129,848**	139,128
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Interest income	**(5,809)**	(3,953)
Net exchange (gain)/loss	**(343)**	916
Others	**209**	48
Subtotal	**123,905**	136,139
Difference in overseas tax rates	**1,554**	1,466
Under/(over)-provision in prior years	**1,281**	(4,825)
Tax loss not recognised	**9,599**	3,183
Utilisation of previously unrecognised tax losses	**(85)**	(2,220)
Temporary differences not recognised	**43,549**	43,688
Income tax expense	**179,803**	177,431

9 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.

	2018 **Cents**	2017 Cents
Total basic earnings per share attributable to the equity holders of the Company	**55.4**	61.7

9 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.

	2018 **Cents**	2017 Cents
Total diluted earnings per share attributable to the equity holders of the Company	**55.4**	61.7

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

	2018 **$000**	2017 $000
Profit attributable to the equity holders of the Company used in calculating basic earnings per share and diluted earnings per share	**615,243**	672,102

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

	2018 **Number**	2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and diluted earnings per share	**1,110,194,100**	1,088,507,398

10 Dividends

	2018 **$000**	2017 $000
Interim dividend, paid, of 18 cents (2017: 27 cents) per fully paid share	**200,336**	294,130
Final dividend, proposed, of 23 cents (2017: 33 cents) per fully paid share	**257,903**	364,789
	458,239	658,919

For the dividends attributable to the years ended 30 June 2018 and 2017, scrip dividend elections were offered to shareholders.

At a meeting held on 5 September 2018, the directors proposed a final dividend of 23 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 2019.

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

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:

	2018 **$000**	2017 $000
Current to 30 days	**276,802**	275,258
31 - 60 days	**45,066**	26,457
61 - 90 days	**4,705**	12,951
Over 90 days	**38,184**	6,784
	364,757	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 $10,811,000 (2017: $18,554,000) for the impairment of its trade receivables during the year ended 30 June 2018. The loss has been included in "other operating expenses" in the consolidated profit and loss account. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

12 Trade payables

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

	2018 **$000**	2017 $000
Current to 30 days	**377,911**	157,533
31 - 60 days	**42,004**	85,232
61 - 90 days	**12,016**	49,759
Over 90 days	**89,689**	64,869
	521,620	357,393

REVIEW OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 30 June 2018 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 2018 of 23 cents per share (2016/17: 33 cents). The proposed final dividend, together with the interim dividend of 18 cents per share paid by the Company during the year (2016/17: 27 cents), makes a total dividend for the year of 41 cents per share.

Subject to approval of the shareholders at the forthcoming Annual General Meeting, the proposed final 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 proposed final 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 Thursday, 15 November 2018.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of the proposed final dividend at the forthcoming Annual General Meeting and 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 proposed final dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent on or about Friday, 14 December 2018 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 7 November 2018.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company is scheduled to be held on Tuesday, 30 October 2018. 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, 25 October 2018 to Tuesday, 30 October 2018, 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, 24 October 2018.

The record date for entitlement to the proposed final dividend is Wednesday, 7 November 2018. For determining the entitlement to the proposed final dividend, the Register of Members of the Company will be closed for one day on Wednesday, 7 November 2018 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, 6 November 2018.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 30 June 2018, the Company repurchased 29,994,000 shares of the Company on The Stock Exchange of Hong Kong Limited. Of these repurchased shares, 27,786,000 shares were cancelled prior to 30 June 2018 and the balance of 2,208,000 shares were cancelled subsequently after 30 June 2018. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid
		Highest	Lowest	
		$	$	$
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
February 2018	8,205,500	9.06	8.24	70,452,000
March 2018	1,604,000	8.68	8.33	13,700,000
April 2018	2,816,500	8.27	8.14	23,097,000
May 2018	2,385,500	8.30	8.20	19,636,000
June 2018	2,208,000	8.25	8.16	18,178,000
	29,994,000			265,599,000

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 year ended 30 June 2018 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 as well as the internal audit reports of the Group for the year ended 30 June 2018. 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 2018.

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 2018, 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 terms 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.

Full details of the report on corporate governance will be set out in the Company's 2017/18 Annual Report.

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

Hong Kong, 5 September 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.