SmarTone Telecommunications Holdings Limited

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

2018 / 2019 INTERIM RESULTS ANNOUNCEMENT

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

- Stable performance despite keen competition and volatile macroeconomic environment
- Customer base continued to grow, increasing 12% to 2.47 million; churn rate at industry low of 1.0%
- Based on previous accounting standard, net profit down 1%, from $328m to $325m
- Following adoption of the new accounting standard HKFRS 15, group net profit increased 1%, from $328m to $332m
- The Board declares an interim dividend of 18 cents per share, same as last year

CHAIRMAN'S STATEMENT

Business review

During the period under review, the overall market remained highly competitive. Nevertheless, the Company's continued focus on providing excellent network and customer experience contributed to a 12% increase in customer number to 2.47 million while postpaid churn rate remained at an industry low of 1.0%.

SmarTone has adopted the new accounting standard HKFRS 15 for the period under review. Under the modified retrospective approach of HKFRS 15, prior period numbers are reported under the previous accounting standard HKAS 18, with the current period based on HKFRS 15.

Based on the previous accounting standard HKAS 18 which provides a consistent basis for comparison with the same period last year, group net profit was $325 million, a drop of 1% compared to the same period last year. Group service revenue increased 1% to $2,552 million, and handset and accessory sales grew 66% due to volume increase. Consequently, group total revenue increased 26% while group EBITDA increased 3%.

Under the new accounting standard HKFRS 15, the impact on group net profit was minimal with group net profit at $332 million, showing an increase of 1% compared to the same period last year. However, due to the reallocation of a portion of service revenue for handset-bundled plans to handset and accessory sales, reported group service revenue was 7% lower while handset and accessory sales increased 79%. This led to an increase of 26% in group total revenue. Group EBITDA was lower by 13% as handset subsidy amortisation was netted off against service revenue above EBITDA.

During the period under review, with its strong customer-centric brand, superior network performance and excellent customer service, the Company successfully expanded its flagship SuperCare customer segment. SmarTone's excellent customer experience won recognition at the annual HK Retail Management Association Service Awards competition, winning six of the most prestigious awards. In addition, the Company won top industry awards for its e-commerce services and SmarTone CARE app which provides efficient and convenient digital services to meet growing demand from customers. The Company will continue to invest in staff and technology to achieve ever higher standards in customer experience and engagement.

SmarTone's Enterprise Solutions business continued to register robust growth in the current period. Through a deep understanding of customer needs and cutting-edge technologies, the Company's broad portfolio of industry-specific solutions enabled its clients to improve performance and enhance efficiency. SmarTone will continue to develop new industry applications to meet growing demands as Hong Kong moves towards 5G and its Smart City vision.

SmarTone further strengthened its position in the Millennial market with Birdie, Hong Kong's first digital mobile brand, registering healthy customer growth. The brand received favourable market response and has won prestigious awards in digital marketing since the launch of Birdie Travel in July 2017. Birdie will continue to grow through a combination of engaging community initiatives and strategic partnerships.

As a leader in mobile technology in Hong Kong, SmarTone is committed to delivering the best products and services that cater to customer needs. The Company has further refarmed spectrum to extend its leading network performance along MTR lines. The implementation of licensed assisted access (LAA) and small cells at selected hotspots have also significantly improved network performance, especially during periods of high traffic flows. In addition, the transition of the network to a Network Function Virtualisation (NFV) architecture has increased efficiency and reduced service and product introduction times. Through the acquisition of additional low frequency 900MHz & 1800MHz spectrum in the recent spectrum renewal, SmarTone's spectrum portfolio will expand in 2021, further enhancing its high quality in-building coverage and network performance, including in the MTR.

The Company continued to deepen its digitalisation initiatives to enhance customer experience and improve efficiency. S-Bot, the first bilingual AI chatbot launched by a Hong Kong mobile operator, has improved customer service and contact centre efficiency. In addition, the implementation of digital tools like robotic process automation (RPA) and redesign of workflows have enabled SmarTone to serve a lot more customers without incurring additional costs.

Employees are at the heart of the Company's success story. As a recognition of their contribution, SmarTone established an employee share award scheme to share the fruits of success with over 300 staff. The Company also implemented family leave, birthday leave and a number of new engagement initiatives to enhance work-life balance and collaboration among teams.

Dividend

In line with the Company's dividend policy, the Board declared an interim dividend of 18 cents per share. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

Outlook

The mobile industry remains highly competitive due to persisting tariff pressures on both local and roaming businesses. Nevertheless, SmarTone will continue to focus on its priorities, including enhancing its proposition to targeted segments like family and millennial, driving further growth in the Enterprise segment, and deepening digitalisation initiatives to improve customer experience and enhance operational efficiency.

The industry is also facing rising cost pressures. Spectrum costs for the recently renewed spectrum have significantly increased fixed costs for all operators. The Company is concerned that the very high spectrum costs in Hong Kong, compared to elsewhere in the region, will act as a brake on Hong Kong's development as a Smart City. While SmarTone is committed to driving new technology to bring benefits to customers, the industry is yet to agree on the economic viability of the 5G business model, especially in the early years of rollout. The Company therefore urges the Government to critically review its spectrum policy to enable operators to invest more in 5G and the Smart City initiative. This is crucial to boost Hong Kong's competitiveness in the region in upgrading towards a digital economy, bringing significant benefits to both businesses and consumers.

Appreciation

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, 30 January 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Review of financial results

During the period under review, Hong Kong customer number increased by 12% year-on-year and 3% half-on-half despite intense competition. Postpaid churn rate remained stable at an industry low of 1.0%.

With the implementation of the new accounting standard, HKFRS 15, a portion of Group service revenue of handset bundled plans is allocated to handset and accessory sales. Cost of inventories sold are recognised upfront with a corresponding reduction in handset subsidy amortisation.

Group total revenue increased by $1,079 million or 26% to $5,187 million (first half of 2017/18: $4,108 million) mainly due to higher handset revenue. Compared with the second half of 2017/18, Group total revenue decreased by $694 million or 12% to $5,187 million (second half of 2017/18: $5,881 million) mainly amid lower handset revenue.

Under HKFRS 15, Group service revenue fell 7% to $2,345 million (first half of 2017/18: $2,522 million) as part of the service revenue of handset bundled plans was allocated to handset and accessories sales. Based on the previous accounting standard HKAS 18 which provides a consistent basis for comparison with the same period last year, Group service revenue remained resilient, increasing 1% despite challenging market environment. Mobile postpaid ARPU was at an industry-leading $250.

Compared with the second half of 2017/18, Group service revenue fell by $193 million or 8% (second half of 2017/18: $2,538 million), mainly due to the reallocation of a portion of service revenue to handset and accessories sales under HKFRS 15.

Roaming revenue, which made up of 16% of Group’s service revenue (first half of 2017/18: 15%) rose by 1% as healthy growth in data roaming more than offset weakness in voice roaming.

During the period under review, Group’s handset and accessory sales rose by $1,256 million or 79% to $2,842 million when compared with $1,586 million for the first half of 2017/18. Both sales volume and average unit selling price increased. Part of the increase is attributable to the reallocation of a portion of service revenue of handset bundled plans to handset and accessory sales under HKFRS 15.

Compared with the second half of 2017/18, Group’s handset and accessories sales fell by $501 million or 15%. Lower sales volume was partly offset by higher average unit selling price.

Under HKFRS 15, cost of inventories sold rose by $1,265 million or 82% to $2,813 million when compared with $1,547 million for the first half of 2017/18. Handset subsidy can no longer be amortised and has to be reflected as cost of inventories sold as incurred. Compared with the second half of 2017/18, cost of inventories sold fell by $507 million or 15%, in line with the corresponding decrease in handset and accessory sales.

Staff costs rose by $6 million or 2% to $364 million (first half of 2017/18: $358 million) amid increase in share-based payments due to the grant of share awards to over 300 staff in June 2018.

Cost of services provided and other operating expenses fell by $51 million or 5% to $1,071 million when compared with $1,122 million for the first half of 2017/18 as sales commissions were capitalised as customer acquisition and retention costs and amortised over the contract period under HKFRS 15 instead of expensed as incurred previously. Based on the previous accounting treatment, cost of services provided and other operating expenses fell by $18 million or 2% as a result of ongoing efficiency drives, despite expansion in customer base and increased data usage.

Depreciation and loss on disposal rose by $1 million to $330 million when compared with $329 million for the first half of 2017/18. Compared with the second half of 2017/18, depreciation and loss on disposal fell slightly by $5 million or 1% (second half of 2017/18: $335 million).

Handset subsidy amortisation fell by $155 million (first half of 2017/18: $155 million) as handset subsidy can no longer be amortised under HKFRS 15. It has to be reflected as cost of inventories sold.

Amortistion of customer acquisition and retention costs rose by $27 million (first half of 2017/18: nil) as sales commissions are capitalised as customer acquisition and retention costs and amortised over contract period under HKFRS 15 instead of expensed as incurred previously.

Spectrum utilisation fee amortisation remained stable at $143 million.

Finance income rose by $7 million to $36 million (first half of 2017/18: $29 million) amid higher deposit interest income. Compared with the second half of 2017/18, finance income rose by $4 million (second half of 2017/18: $32 million).

Finance costs fell by $10 million to $55 million when compared with $64 million for the first half of 2017/18 amid lower handset instalment charges and lower accretion expenses on mobile license fee liabilities. Compared with $57 million for the second half of 2017/18, finance costs fell slightly by $2 million.

Income tax expenses amounted to $94 million (first half of 2017/18: $93 million), reflecting an effective tax rate of 22.4% (first half of 2017/18: 22.4%). 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%.

During the period under review, Group EBITDA fell by 13% to $939 million (first half of 2017/18: $1,080 million) mainly due to the adoption of HKFRS 15. Group operating profit was $439 million, representing a 3% decrease as compared with same period last year. Group profit attributable to shareholders rose by 1% to $332 million (first half of 2017/18: $328 million).

Compared with the second half of 2017/18, Group EBITDA fell by 11% (second half of 2017/18: $1,056 million), while Group operating profit rose by 12% mainly amid savings in operating costs. Group profit attributable to equity holders of the Company rose by 16% (second half of 2017/18: $287 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 2018, the Group recorded share capital of $112 million, total equity of $4,951 million and total borrowings of $2,370 million.

The Group's cash resources remained robust with cash and bank balances (including short-term bank deposits) of $1,379 million as at 31 December 2018 (30 June 2018: $1,828 million).

As at 31 December 2018, the Group had bank and other borrowings of $2,370 million (30 June 2018: $2,430 million) of which 78% were denominated in United States dollars and were arranged on a fixed rate basis. Net debt, after deducting cash and financial assets at amortised costs, amounted to $442 million (30 June 2018: $36 million). Net debt to EBITDA (annualised) was 0.2X as at 31 December 2018 (30 June 2018: 0.02X).

The Group had net cash generated from operating activities and interest received of $194 million and $36 million respectively during the period ended 31 December 2018. The Group's major outflows of funds during the period were purchases of fixed assets, payment for 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 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 financial assets at amortised costs. Bank deposits and financial assets at amortised costs 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 $76 million as at 31 December 2018 (30 June 2018: $78 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 22% of the Group’s total borrowings at 31 December 2018. The remaining 78% of the Group’s borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential increase in interest rates in the future. The Group does not currently undertake any interest rate hedging.

Functional currency and foreign exchange exposure

The functional currency of the Company is the Hong Kong dollar. The Group is exposed to other currency movements, principally in terms of certain trade receivables, bank deposits, financial asset at fair value through other comprehensive income, financial assets at amortised costs, 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

A bank, on the Group’s behalf, had issued a performance bond to the telecommunications authority of Macau in respect of obligation under the mobile licence issued by the authority. The total amount outstanding as at 31 December 2018 under the performance bond was $4 million (30 June 2018: $4 million).

During the period under review, a bank issued a standby letter of credit of $1,400 million to a subsidiary of the Company in favor of the Office of the Communications Authority ("OFCA") regarding the acceptance of the offer of the right of first refusal for the re-assignment of two of the spectrum. This standby letter of credit will be amended to the reduced amount of $1,080 million.

A bank also issued a standby letter of credit with amount of $1,520 million to a subsidiary of the Company in favor of OFCA for submission of a deposit to participate in the auction for two of the spectrum. This standby letter of credit will be cancelled and replaced by two letters of credit of $580 million and $760 million respectively, being the final amount of spectrum utilisation fees determined during the auction, to be issued in March 2019.

Employees, share award scheme and share option scheme

The Group had 1,928 full-time employees as at 31 December 2018 (30 June 2018: 1,898), with the majority of them based in Hong Kong. Total staff costs were $364 million for the period ended 31 December 2018 (first half of 2017/18: $358 million).

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

A share award scheme was adopted by the Group as an incentive arrangement to recognise the contributions by certain employees and to attract and retain suitable personnel for the development of the Group. During the period under review, no shares were granted or vested. 35,200 shares were lapsed. 1,836,600 shares (30 June 2018: 1,871,800) were outstanding as of 31 December 2018.

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 period under review, no share options were granted, cancelled or lapsed. 3,000,000 (30 June 2018: 3,000,000) share options were outstanding as at 31 December 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 six months ended 31 December 2018 and the consolidated balance sheet as at 31 December 2018 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 2018

		Unaudited six months ended 31 December	
		2018	2017
	Notes	**$000**	$000
Service revenue		**2,344,586**	2,521,674
Handset and accessory sales		**2,841,975**	1,585,903
Revenues	4	**5,186,561**	4,107,577
Cost of inventories sold		**(2,812,795)**	(1,547,406)
Cost of services provided		**(190,700)**	(179,747)
Staff costs		**(363,755)**	(358,102)
Other operating expenses		**(880,005)**	(942,295)
Depreciation, amortisation and loss on disposal	7	**(500,344)**	(627,192)
Operating profit		**438,962**	452,835
Finance income	5	**35,808**	29,189
Finance costs	6	**(54,548)**	(64,259)
Profit before income tax	7	**420,222**	417,765
Income tax expense	8	**(94,030)**	(93,455)
Profit after income tax		**326,192**	324,310
Attributable to			
Equity holders of the Company		**332,410**	328,117
Non-controlling interests		**(6,218)**	(3,807)
		326,192	324,310
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	9		
Basic		**29.7**	29.8
Diluted		**29.7**	29.8

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2018

	Unaudited six months ended 31 December **2018** **$000**	2017 $000
Profit for the period	**326,192**	324,310
Other comprehensive (loss)/income		
Item that may be reclassified subsequently to profit and loss:		
Fair value loss on financial investments, net of tax	**-**	(686)
Currency translation differences	**(5,326)**	2,082
Item that will not be reclassified subsequently to profit and loss:		
Fair value loss on financial asset at fair value through other comprehensive income, net of tax	**(939)**	-
Other comprehensive (loss)/income for the period, net of tax	**(6,265)**	1,396
Total comprehensive income for the period	**319,927**	325,706
Total comprehensive income attributable to		
Equity holders of the Company	**326,145**	329,513
Non-controlling interests	**(6,218)**	(3,807)
	319,927	325,706

Condensed Consolidated Balance Sheet
As at 31 December 2018 and 30 June 2018

	Notes	**Unaudited 31 December 2018 $000**	Audited 30 June 2018 $000
Non-current assets			
Leasehold land and land use rights		**10,362**	11,315
Fixed assets		**2,826,077**	2,970,680
Customer acquisition and retention costs		**57,176**	-
Contract assets		**145,702**	-
Interest in an associate		**3**	3
Financial assets at amortised cost		**437,133**	-
Held-to-maturity debt securities		**-**	486,599
Intangible assets		**2,907,693**	3,516,902
Deposits and prepayments		**123,563**	117,135
Deferred income tax assets		**5,341**	5,542
Total non-current assets		**6,513,050**	7,108,176
Current assets			
Inventories		**318,946**	161,465
Financial asset at fair value through other comprehensive income		**5,707**	-
Financial assets at amortised cost		**111,773**	-
Available-for-sales financial assets		**-**	6,646
Held-to-maturity debt securities		**-**	80,092
Contract assets		**329,374**	-
Trade receivables	11	**474,885**	364,757
Deposits and prepayments		**133,398**	172,877
Other receivables		**64,935**	43,645
Tax reserve certificate		**252,362**	252,362
Short-term bank deposits		**2,385**	96,155
Cash and cash equivalents		**1,376,710**	1,731,951
Total current assets		**3,070,475**	2,909,950
Current liabilities			
Trade payables	12	**316,791**	521,620
Other payables and accruals		**718,104**	852,081
Contract liabilities		**253,173**	-
Current income tax liabilities		**412,227**	457,389
Bank borrowings		**130,236**	135,789
Customer prepayments and deposits		**213,445**	247,081
Deferred income		**-**	222,996
Mobile licence fee liabilities		**35,209**	60,041
Total current liabilities		**2,079,185**	2,496,997

Condensed Consolidated Balance Sheet
As at 31 December 2018 and 30 June 2018

	Unaudited 31 December 2018 $000	Audited 30 June 2018 $000
Non-current liabilities		
Customer prepayments and deposits	**49,811**	98,087
Asset retirement obligations	**42,197**	43,027
Bank and other borrowings	**2,239,564**	2,294,592
Mobile licence fee liabilities	**100,183**	127,991
Deferred income tax liabilities	**121,907**	125,708
Total non-current liabilities	**2,553,662**	2,689,405
Net assets	**4,950,678**	4,831,724
Capital and reserves		
Share capital	**112,122**	112,426
Reserves	**4,811,837**	4,686,655
Total equity attributable to equity holders of the Company	**4,923,959**	4,799,081
Non-controlling interests	**26,719**	32,643
Total equity	**4,950,678**	4,831,724

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 30 January 2019.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2018 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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2018, as described in those annual financial statements except for the adoption of the new standards, amendments to standards and interpretations to existing standards as set out below.

(a) New standards, amendments to standards and interpretations to existing standards adopted by the Group

The Group has applied the following new standards, amendments to standards and interpretations to existing standards for the first time for their annual reporting commencing 1 July 2018.

Annual Improvements Project	Annual Improvements 2014-2016 Cycle
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 1 (Amendment)	First Time Adoption of HKFRS
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration

2 Basis of preparation *(continued)*

(a) New standards, amendments to standards and interpretations to existing standards adopted by the Group *(continued)*

The Group had to change its accounting policies and make certain modified retrospective adjustments following the adoption of HKFRS 15. The impact of the adoption of this standard is disclosed in note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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

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 2018 and have not been early adopted.

Annual Improvements Project	Annual Improvements to HKFRS Standards 2015-2017 Cycle[1]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures[1]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK (IFRIC) 23	Uncertainty over Income Tax Treatments[1]

[1] Effective for annual periods beginning on or after 1 January 2019.
[2] Effective for annual periods beginning on or after 1 January 2021.
[3] Effective for annual periods beginning on or after a date to be determined.

2 Basis of preparation *(continued)*

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

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 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.

In view of the costs and significant complexity involved of applying the full retrospective approach, the Group intends to adopt the modified retrospective approach. Under the modified retrospective approach, (i) comparative information for prior periods will not be restated; (ii) the date of the initial application of HKFRS 16 will be 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 will recognise 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.

2 Basis of preparation *(continued)*

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

HKFRS 16, “Leases” *(continued)*

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.

3 Change in accounting policy

This note explains the impact of the adoption of HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* on the Group’s financial statements that have been applied from 1 July 2018.

(a) HKFRS 9, “Financial Instruments”

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Accounting policies

(i) Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income (“FVOCI”), and
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in other comprehensive income (“OCI”). For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

3 Change in accounting policy *(continued)*

(a) HKFRS 9, “Financial Instruments” *(continued)*

Accounting policies (continued)

(ii) Measurement *(continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments at amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated profit and loss account.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group’s management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group’s right to receive payments is established.

(iii) Impairment

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(b) HKFRS 15, “Revenue from Contracts with Customers”

The Group has adopted HKFRS 15 from 1 July 2018 which resulted in change in accounting policy. In accordance with the transition provisions in HKFRS 15, the Group has adopted the modified retrospective approach for transition to the new revenue standard. Under this transition approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of HKFRS 15 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 15, i.e. 1 July 2018; (iii) the Group recognises the cumulative effect of initial application of HKFRS 15 as an adjustment to the opening balance of retained profit (or other component of equity, as appropriate) in the year of adoption, i.e. as at 1 July 2018; and (iv) the Group elects to apply the new standard only to contracts that are not completed contracts at 1 July 2018.

3 Change in accounting policy *(continued)*

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

Accounting policies

(i) Sales of goods

Revenue from the sales of goods is recognised when control of the products has transferred to the customer, which generally coincides with the time when the goods are delivered to customers and title has passed and collectability of the related receivables is reasonably assured.

(ii) Provision of services

Revenue from services is measured based on the usage of the Group's telecommunications network and facilities and is recognised when the services are rendered. Service revenue in respect of standard service plans billed in advance is deferred and included under contract liabilities.

(iii) Multiple-element arrangements

The amount of revenue recognised for each performance obligation is determined by considering the standalone selling prices or estimated fair values of each of the services element and handset device element provided within the bundled contracts.

(iv) Customer acquisition and retention costs eligible for capitalisation

The incremental costs of obtaining telecommunications services contracts are those costs that would not have been incurred if the contract had not been obtained. These incremental costs are required to be capitalised as an asset when incurred, and amortised on a straight-line basis in the consolidated profit and loss account over the minimum enforceable contractual period.

In previous reporting periods, incremental costs of obtaining telecommunications services contracts were recognised in the consolidated profit and loss account as incurred.

(v) Contract assets

Contract assets relating to multiple-element arrangements are recognised when the Group has performed the service or transferred the good to the customer before the customer pays consideration or before payment is due.

(vi) Contract liabilities

The Group recognises contract liabilities when a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group performs a service or transfers a good to the customer.

3 Change in accounting policy *(continued)*

(c) Impact of adoption to the interim financial statements

The following tables illustrate the amounts by each financial statements line item affected in current period by the application of HKFRS 9 and HKFRS 15 as compared to HKAS 18 that were previously in effect before the adoption of HKFRS 15:

Condensed Consolidated Profit and Loss Account	Unaudited six months ended 31 December 2018 Reported under current accounting policies $000	Effect of HKFRS 15 $000	Balance without the adoption of HKFRS 15 $000
Service revenue	2,344,586	207,806	2,552,392
Handset and accessory sales	2,841,975	(210,855)	2,631,120
Revenues	5,186,561	(3,049)	5,183,512
Cost of inventories sold	(2,812,795)	204,265	(2,608,530)
Cost of services provided	(190,700)	-	(190,700)
Staff costs	(363,755)	-	(363,755)
Other operating expenses	(880,005)	(33,109)	(913,114)
Depreciation, amortisation and loss on disposal	(500,344)	(177,188)	(677,532)
Operating profit	438,962	(9,081)	429,881
Finance income	35,808	-	35,808
Finance costs	(54,548)	-	(54,548)
Profit before income tax	420,222	(9,081)	411,141
Income tax expense	(94,030)	1,531	(92,499)
Profit after income tax	326,192	(7,550)	318,642
Attributable to			
Equity holders of the Company	332,410	(7,606)	324,804
Non-controlling interests	(6,218)	56	(6,162)
	326,192	(7,550)	318,642

3 Change in accounting policy *(continued)*

(c) Impact of adoption to the interim financial statements *(continued)*

	Unaudited 31 December 2018			
Condensed Consolidated Balance Sheet	Reported under current accounting policies $000	Effect under HKFRS 9 $000	Effect under HKFRS 15 $000	Balance without the adoption of HKFRS 9 and HKFRS 15 $000
Non-current assets				
Leasehold land and land use rights	10,362	-	-	10,362
Fixed assets	2,826,077	-	-	2,826,077
Customer acquisition and retention costs	57,176	-	(57,176)	-
Contract assets	145,702	-	(145,702)	-
Interest in an associate	3	-	-	3
Financial assets at amortised cost	437,133	(437,133)	-	-
Held-to-maturity debt securities	-	437,133	-	437,133
Intangible assets	2,907,693	-	463,367	3,371,060
Deposits and prepayments	123,563	-	-	123,563
Deferred income tax assets	5,341	-	-	5,341
Total non-current assets	6,513,050	-	260,489	6,773,539
Current assets				
Inventories	318,946	-	-	318,946
Financial asset at fair value through other comprehensive income	5,707	(5,707)	-	-
Financial assets at amortised cost	111,773	(111,773)	-	-
Available-for-sales financial assets	-	5,707	-	5,707
Held-to-maturity debt securities	-	111,773	-	111,773
Contract assets	329,374	-	(329,374)	-
Trade receivables	474,885	-	-	474,885
Deposits and prepayments	133,398	-	-	133,398
Other receivables	64,935	-	-	64,935
Tax reserve certificate	252,362	-	-	252,362
Short-term bank deposits	2,385	-	-	2,385
Cash and cash equivalents	1,376,710	-	-	1,376,710
Total current assets	3,070,475	-	(329,374)	2,741,101

3 Change in accounting policy *(continued)*

(c) Impact of adoption to the interim financial statements *(continued)*

Condensed Consolidated Balance Sheet	Unaudited 31 December 2018 Reported under current accounting policies $000	Effect under HKFRS 9 $000	Effect under HKFRS 15 $000	Balance without the adoption of HKFRS 9 and HKFRS 15 $000
Current liabilities				
Trade payables	316,791	-	-	316,791
Other payables and accruals	718,104	-	38,652	756,756
Contract liabilities	253,173	-	(253,173)	-
Current income tax liabilities	412,227	-	(13,535)	398,692
Bank borrowings	130,236	-	-	130,236
Customer prepayments and deposits	213,445	-	22,196	235,641
Deferred income	-	-	205,637	205,637
Mobile licence fee liabilities	35,209	-	-	35,209
Total current liabilities	2,079,185	-	(223)	2,078,962
Non-current liabilities				
Customer prepayments and deposits	49,811	-	-	49,811
Asset retirement obligations	42,197	-	-	42,197
Bank and other borrowings	2,239,564	-	-	2,239,564
Mobile licence fee liabilities	100,183	-	-	100,183
Deferred income tax liabilities	121,907	-	-	121,907
Total non-current liabilities	2,553,662	-	-	2,553,662
Net assets	4,950,678	-	(68,662)	4,882,016
Capital and reserves				
Share capital	112,122	-	-	112,122
Reserves	4,811,837	-	(68,424)	4,743,413
Total equity attributable to equity holders of the Company	4,923,959	-	(68,424)	4,855,535
Non-controlling interests	26,719	-	(238)	26,481
Total equity	4,950,678	-	(68,662)	4,882,016

3 Change in accounting policy *(continued)*

(c) Impact of adoption to the interim financial statements *(continued)*

Condensed Consolidated Balance Sheet	30 June 2018 As previously reported $000	Effect under HKFRS 9 $000	Effect under HKFRS 15 $000	1 July 2018 $000
Non-current assets				
Leasehold land and land use rights	11,315	-	-	11,315
Fixed assets	2,970,680	-	-	2,970,680
Customer acquisition and retention costs	-	-	54,511	54,511
Contract assets	-	-	159,520	159,520
Interest in an associate	3	-	-	3
Financial assets at amortised cost	-	486,599	-	486,599
Held-to-maturity debt securities	486,599	(486,599)	-	-
Intangible assets	3,516,902	-	(466,474)	3,050,428
Deposits and prepayments	117,135	-	-	117,135
Deferred income tax assets	5,542	-	-	5,542
Total non-current assets	7,108,176	-	(252,443)	6,855,733
Current assets				
Inventories	161,465	-	-	161,465
Financial asset at fair value through other comprehensive income	-	6,646	-	6,646
Financial assets at amortised cost	-	80,092	-	80,092
Available-for-sales financial assets	6,646	(6,646)	-	-
Held-to-maturity debt securities	80,092	(80,092)	-	-
Contract assets	-	-	305,299	305,299
Trade receivables	364,757	-	-	364,757
Deposits and prepayments	172,877	-	-	172,877
Other receivables	43,645	-	-	43,645
Tax reserve certificate	252,362	-	-	252,362
Short-term bank deposits	96,155	-	-	96,155
Cash and cash equivalents	1,731,951	-	-	1,731,951
Total current assets	2,909,950	-	305,299	3,215,249

3 Change in accounting policy *(continued)*

(c) Impact of adoption to the interim financial statements *(continued)*

Condensed Consolidated Balance Sheet	30 June 2018 As previously reported $000	Effect under HKFRS 9 $000	Effect under HKFRS 15 $000	1 July 2018 $000
Current liabilities				
Trade payables	521,620	-	-	521,620
Other payables and accruals	852,081	-	(37,696)	814,385
Contract liabilities	-	-	262,432	262,432
Current income tax liabilities	457,389	-	12,004	469,393
Bank borrowings	135,789	-	-	135,789
Customer prepayments and deposits	247,081	-	(22,686)	224,395
Deferred income	222,996	-	(222,996)	-
Mobile licence fee liabilities	60,041	-	-	60,041
Total current liabilities	2,496,997	-	(8,942)	2,488,055
Non-current liabilities				
Customer prepayments and deposits	98,087	-	-	98,087
Asset retirement obligations	43,027	-	-	43,027
Bank and other borrowings	2,294,592	-	-	2,294,592
Mobile licence fee liabilities	127,991	-	-	127,991
Deferred income tax liabilities	125,708	-	-	125,708
Total non-current liabilities	2,689,405	-	-	2,689,405
Net assets	4,831,724	-	61,798	4,893,522
Capital and reserves				
Share capital	112,426	-	-	112,426
Reserves	4,686,655	-	61,504	4,748,159
Total equity attributable to equity holders of the Company	4,799,081	-	61,504	4,860,585
Non-controlling interests	32,643	-	294	32,937
Total equity	4,831,724	-	61,798	4,893,522

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.

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 2018			
	Hong Kong	**Macau**	**Elimination**	**Consolidated**
	$000	**$000**	**$000**	**$000**
External revenue	**4,862,697**	**323,864**	**-**	**5,186,561**
Inter-segment revenue	**309,182**	**2,922**	**(312,104)**	**-**
Total revenue	**5,171,879**	**326,786**	**(312,104)**	**5,186,561**
Timing of revenue recognition				
At a point in time	**2,882,985**	**267,294**	**(308,304)**	**2,841,975**
Over time	**2,288,894**	**59,492**	**(3,800)**	**2,344,586**
	5,171,879	**326,786**	**(312,104)**	**5,186,561**
EBITDA #	**941,238**	**(1,932)**	**-**	**939,306**
Depreciation, amortisation and loss on disposal	**(480,919)**	**(19,432)**	**7**	**(500,344)**
Operating profit/(loss)	**460,319**	**(21,364)**	**7**	**438,962**
Finance income				**35,808**
Finance costs				**(54,548)**
Profit before income tax				**420,222**

4 Segment reporting *(continued)*

(a) Segment results *(continued)*

	Unaudited six months ended 31 December 2017			
	Hong Kong	Macau	Elimination	Consolidated
	$000	$000	$000	$000
External revenue	3,861,832	245,745	-	4,107,577
Inter-segment revenue	187,493	3,500	(190,993)	-
Total revenue	4,049,325	249,245	(190,993)	4,107,577
Timing of revenue recognition				
At a point in time	1,598,643	173,955	(186,695)	1,585,903
Over time	2,450,682	75,290	(4,298)	2,521,674
	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

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

4 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 31 December 2018 (Unaudited)			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**8,371,218**	**399,988**	**812,319**	**9,583,525**
Segment liabilities	**(3,972,032)**	**(126,681)**	**(534,134)**	**(4,632,847)**

	At 30 June 2018 (Audited)			
	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)

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	
	2018	2017
	$000	$000
Interest income from listed debt securities	**12,222**	16,201
Interest income from bank deposits	**22,331**	11,159
Gain on disposal of listed debt securities	**-**	1,391
Accretion income	**1,255**	438
	35,808	29,189

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	
	2018	2017
	$000	$000
Interest expense		
Bank and other borrowings	**43,021**	45,168
Bank charges for credit card instalment	**1,048**	5,496
Accretion expenses		
Mobile licence fee liabilities	**9,710**	12,010
Asset retirement obligations	**751**	694
Net exchange loss on financing activities	**18**	891
	54,548	64,259

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	
	2018	2017
	$000	$000
Charging:		
Operating lease rentals for land and buildings, transmission sites and leased lines	**523,214**	533,056
Impairment loss of trade receivables (note 11)	**2,522**	6,041
Impairment loss of inventories	**1,630**	-
Net exchange loss	**-**	3,762
Loss on disposal of fixed assets	**5,729**	4,346
Depreciation of fixed assets, leasehold land and land use rights	**324,411**	324,650
Amortisation of handset subsidies	**-**	155,461
Amortisation of mobile licence fees	**142,735**	142,735
Amortisation of customer acquisition and retention costs	**27,469**	-
Share-based payments	**4,544**	1,224
Crediting:		
Reversal of impairment loss of inventories	**-**	2,008
Net exchange gain	**5,600**	-

8 Income tax expense

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Current income tax		
Hong Kong profits tax	**96,556**	94,953
Overseas tax	**538**	696
Under-provision in prior year		
Hong Kong profits tax	**536**	1,455
Total current income tax expense	**97,630**	97,104
Deferred income tax		
Decrease in deferred income tax assets	**201**	231
Decrease in deferred income tax liabilities	**(3,801)**	(3,880)
Total deferred income tax expense	**(3,600)**	(3,649)
Income tax expense	**94,030**	93,455

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 earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the company
- by the weighted average number of ordinary shares outstanding during the period.

	Unaudited six months ended 31 December	
	2018	2017
	Cents	Cents
Total basic earnings per share attributable to the equity holders of the Company	**29.7**	29.8

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.

	Unaudited six months ended 31 December	
	2018	2017
	Cents	Cents
Total diluted earnings per share attributable to the equity holders of the Company	**29.7**	29.8

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

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Profit attributable to the equity holders of the Company used in calculating basic earnings per share and diluted earnings per share	**332,410**	328,117

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

	Unaudited six months ended 31 December	
	2018	2017
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (less shares held for Share Award Scheme)	**1,120,512,051**	1,100,394,473
Adjustments for calculation of diluted earnings per share:		
Effect of Awarded Shares	**410,709**	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,120,922,760**	1,100,394,473

10 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Interim dividend declared of 18 cents (2017: 18 cents) per fully paid share	**201,822**	201,813

At a meeting held on 30 January 2019, the directors declared an interim dividend of 18 cents per fully paid share for the year ending 30 June 2019. 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 2019.

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

(b) Attributable to prior year paid in the period

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Final dividend of 23 cents (2017: 33 cents) per fully paid share	**257,714**	361,355

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 2018 $000	Audited 30 June 2018 $000
Current to 30 days	**360,205**	276,802
31 - 60 days	**43,183**	45,066
61 - 90 days	**29,574**	4,705
Over 90 days	**41,923**	38,184
	474,885	364,757

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 $2,522,000 (2017: $6,041,000) for the impairment of its trade receivables during the six months ended 31 December 2018. 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 2018 $000	Audited 30 June 2018 $000
Current to 30 days	**72,013**	377,911
31 - 60 days	**68,873**	42,004
61 - 90 days	**35,460**	12,016
Over 90 days	**140,445**	89,689
	316,791	521,620

INTERIM DIVIDEND

The Directors declared an interim dividend of 18 cents per share for the six months ended 31 December 2018 (2017: 18 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 Tuesday, 26 February 2019.

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 Wednesday, 27 March 2019 to shareholders whose names appear on the Register of Members of the Company on Monday, 18 February 2019.

CLOSURE OF REGISTER OF MEMBERS

The record date for entitlement to the interim dividend is Monday, 18 February 2019. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Monday, 18 February 2019 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 Friday, 15 February 2019.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 31 December 2018, the Company repurchased 1,563,500 shares of the Company on The Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled prior to 31 December 2018. Details of the repurchases were as follows:

	Number of shares	Price per share		Aggregate
Month of repurchase	repurchased	Highest	Lowest	price paid
		$	$	$
July 2018	744,000	8.00	7.93	5,938,000
September 2018	819,500	8.14	7.83	6,506,000
	1,563,500			12,444,000

The Directors considered that the repurchases could lead to an enhancement of the Company's earnings per share. Save as disclosed above, at no time during the six months ended 31 December 2018 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 2018 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 2018 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 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 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. 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 30 October 2018 due to overseas commitments or other prior engagements. The remaining eight Independent Non-Executive Directors and Non-Executive Directors (representing 73% 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, 30 January 2019

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.