SmarTone Telecommunications Holdings Limited

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

2016 / 2017 ANNUAL RESULTS ANNOUNCEMENT

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

- Group service revenue was $5,160 million; postpaid service revenue net of handset subsidy amortisation remained unchanged over the previous year
- Customer number grew 4% to 2.06 million; Churn rate at 1.0%
- Mobile postpaid ARPU at $285
- Group net profit was $672 million
- Proposed final dividend of 33 cents per share, making a full year dividend of 60 cents per share

CHAIRMAN'S STATEMENT

I am pleased to report the results of the Company for the year ended 30 June 2017.

The period under review has been dominated by challenging market conditions. Core postpaid service revenue (net of handset subsidy amortisation) has remained steady while net profit declined 16% to $672 million. The drop in profit was due to the increase in spectrum costs, declining voice roaming revenues, lower handset profits and severe competitive pressure. To mitigate against these factors, the Company is taking active steps to implement productivity improvements, while continuing to invest in business fundamentals, including its customer-centric strategy and superior network performance.

Financial Highlights and Review

Group service revenue was $5,160 million, a drop of 6% over the previous year, due to increased migration from handset-bundled plans to SIM Only plans, weakness in the prepaid segment and a decline in voice roaming revenues. However, net of handset subsidy amortisation, the underlying postpaid service revenue has shown resilience and remained unchanged from the prior year. Local mobile postpaid service revenue net of handset subsidy amortisation has increased by 2%, reflecting the strength of the core local mobile business.

SmarTone increased its Hong Kong customer number by 4% to 2.06 million. This was driven by a number of measures, including a focus on customer acquisition through segmented offerings and retention through loyalty initiatives. The Company has continued to invest in branding and marketing to grow its customer base. During the reporting period, churn rate was 1.0% and mobile postpaid ARPU was $285.

The Company has continued to focus on operational efficiency and OPEX remained stable while CAPEX fell by 14%.

During the year under review, SmarTone reinforced its network superiority and technological leadership with the aim of providing the best customer experience in Hong Kong. At the same time, the Company has remained agile to changing customer needs and has developed platforms to enhance customer engagement across a number of digital touchpoints. These include the company website, 24/7 Live Chat, online store and the SmarTone CARE app. SmarTone strengthened its position as a technology leader through the well-received “Powerful Network” campaign to highlight superior network performance, particularly along the MTR lines.

SmarTone continued to invest in expanding capacity and delivering superior network performance to support the growing customer demand for data services. As part of its ongoing investment in 4.5G / 5G technologies, the Company has made substantial progress in the implementation of quad-band Carrier Aggregation, 256QAM and 4X4 MIMO. These upgrades will further enhance overall network performance and customer experience. In addition, SmarTone became the first mobile operator in Hong Kong to successfully complete the LAA trial, an innovative technology combining licensed and unlicensed spectrum to uplift LTE data speed. The Company is also in the process of modernising its core network, an important step to support the network evolution from 4.5G to 5G.

Dividend

The Board is pleased to declare a final dividend of 33 cents per share, making a full-year dividend of 60 cents per share. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme. The Company’s payout policy remains unchanged at 75%.

Outlook

The challenging operating environment is expected to continue. A number of factors, including higher spectrum costs, declining voice roaming revenues, lower handset profits and severe competitive pressure will weigh on profitability. SmarTone is taking proactive steps to mitigate the impact of these factors. The Company’s priority is to improve productivity throughout the business while maintaining investments to deliver the best network experience. The Company also aims to accelerate growth of new revenue sources, such as the ICT (Information, Communications & Technology) business, internet of things (IoT), artificial intelligence (AI) and machine-to-machine (M2M) applications. As part of its customer-centric strategy, SmarTone will continue to deepen its segmented offerings and invest in a number of new digital platforms and services that better suit customers’ increasingly digital lifestyle.

SmarTone welcomes the Government’s move to clarify the spectrum supply roadmap. It is critical for the industry to have sufficient supply of spectrum at a reasonable price to spur innovation and the adoption of services enabled by new technologies & 5G. This is essential to Hong Kong’s position as a competitive and global economy.

The Board is confident that the Company is taking the necessary steps to navigate the current industry environment, while also building the revenue streams that will deliver growth and long-term value to shareholders.

Appreciation

During the year under review, Mr. Tsim Wing-kit, Alfred retired by rotation as Non-Executive Director. I would like to thank Mr. Tsim for his valuable contribution at SmarTone over the years. In addition, Mr. Lam Kwok-fung, Kenny, has been appointed as an Independent Non-Executive Director of SmarTone. I would like to welcome Mr. Lam to the Board.

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, 29 August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Review of financial results

The Group's service revenue fell by $311 million or 6% to $5,160 million (2015/16: $5,471 million) amidst continuing customer migration from handset-bundled plans to SIM Only plans, structural decline in voice roaming and a decline in revenue from prepaid products.

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 $240 million or 35% to $436 million (2015/16: $676 million). Netting off the handset subsidy amortisation, Group postpaid service revenue remained stable while the underlying postpaid local service revenue increased 2%.

Hong Kong customer number increased by 4% year-on-year to 2.06 million, as a result of a number of initiatives including a focus on segmented offerings for acquisitions and loyalty programs for retention. During the reporting period, average mobile postpaid churn rate was 1.0% (2015/16: 0.9%) and mobile postpaid ARPU was $285 (2015/16: $301).

Roaming revenue, which made up of 14% of Group's service revenue (2015/16: 14%) declined due to cannibalisation of voice and SMS usage by over-the-top (OTT) applications and a continuing global downward trend in inter-operator tariffs. Increase in data roaming revenue partly offsets the drop in voice roaming revenue.

The Group's total revenue decreased by 53% to $8,715 million (2015/16: $18,356 million) mainly due to decline in handset sales revenue in the absence of hero handsets in the year under review. Group's handset and accessory sales fell by $9,330 million or 72% to $3,555 million (2015/16: $12,885 million). Both sales volume and average unit selling price declined.

Cost of inventories sold fell by $9,291 million or 73% to $3,504 million (2015/16: $12,795 million). Such decline was broadly in line with the decrease in handset and accessory sales.

Staff costs rose by $11 million or 2% to $733 million (2015/16: $722 million) mainly amid an increase in share-based payments and one-off redundancy costs.

Other operating expenses remained stable at $2,182 million (2015/16: $2,179 million). Higher network operating costs and sales and marketing expenses were offset by lower cost of services provided, rentals and utilities and general administrative expenses.

Depreciation and loss on disposal decreased by $15 million or 2% to $675 million (2015/16: $690 million) amid lower capital expenditure and impact of fully depreciated assets.

Spectrum utilisation fee amortisation rose by $66 million or 35% to $256 million (2015/16: $190 million) amid higher amortisation for the renewed and additional 2100MHz spectrum.

Finance income fell slightly by $8 million to $52 million (2015/16: $60 million) amid significantly lower average balance of bank deposits after payment for the renewed and additional 2100MHz spectrum.

Finance costs excluding exchange loss fell by $22 million to $132 million (2015/16: $154 million) amid lower accretion expenses on mobile licence fee liabilities as the liabilities declined over time.

Exchange loss related to bonds, cash, bank deposits and borrowings amounted to $5 million (2015/16: $48 million mainly from RMB deposits). The Group had minimal exposure to RMB, other than for operating needs.

Income tax expense amounted to $177 million (2015/16: $175 million), reflecting an effective tax rate of 21.0% (2015/16: 18.2%). In light of the uncertainty of the tax deductibility of certain upfront payments for 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%.

The increase in the effective tax rate was due to a higher amortisation expense for upfront utilisation fees (treated as non-deductible expenses) for the renewed and additional 2100MHz spectrum and lower non-taxable interest income from significantly reduced cash deposits.

Macau operations reported an operating loss of $24 million (2015/16: $33 million).

Group EBITDA fell by 14% to $2,296 million (2015/16: $2,661 million). Group service operating profit was $878 million, representing a 13% decline as compared with last year due to increase in spectrum fee amortisation, declining voice roaming and lower handset profit. Group profit attributable to equity holders of the Company fell by 16% to $672 million (2015/16: $797 million).

Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the year under review. During the year under review, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 30 June 2017, the Group recorded share capital of $111 million, total equity of $4,634 million and total borrowings of $2,691 million.

The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits and short-term bank deposits) of $1,274 million as at 30 June 2017 (30 June 2016: $3,242 million). The reduction was mainly due to payment of $2,287 million for the renewed and additional 2100MHz spectrum.

As at 30 June 2017, the Group had bank and other borrowings of $2,691 million (30 June 2016: $2,850 million) of which 81% were denominated in United States dollars and were arranged on a fixed rate basis. Net debt, after deducting cash and held-to-maturity debt securities, amounted to $ 705 million as at 30 June 2017 (30 June 2016: net cash of $1,262 million). Net debt to EBITDA was 0.3X as at 30 June 2017 (30 June 2016: net cash to EBITDA at 0.5X).

The Group had net cash generated from operating activities and interest received of $1,750 million and $61 million respectively during the year ended 30 June 2017. The Group's major outflows of funds during the year were payments for spectrum utilisation fees, dividends, additions of handset subsidies and purchase of fixed assets.

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the financial year ending 30 June 2018 with internal cash resources and available banking facilities.

Treasury policy

The Group invests its surplus funds in accordance with a treasury policy approved from time to time by the board of directors. Surplus funds are placed in bank deposits and invested in held-to-maturity debt securities. Bank deposits and held-to-maturity debt securities are predominantly maintained in Hong Kong dollars and US dollars.

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

Charges on assets

As at 30 June 2017, certain bank deposits of the Group, in aggregate amount of $2 million (30 June 2016: $2 million), were pledged for securing guarantees issued by the banks. In addition, certain Hong Kong dollar denominated bank borrowings were secured by certain assets of the Group and the carrying amount of the pledged assets amounted to $80 million as at 30 June 2017 (30 June 2016: $82 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 19% of the Group's total borrowings at 30 June 2017. The remaining 81% of the Group's borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential rising interest rates in the future. The Group does not currently undertake any interest rate hedging.

Functional currency and foreign exchange exposure

The functional currency of the Company is the Hong Kong dollar. The Group is exposed to other currency movements, principally in terms of certain trade receivables, bank deposits, held-to-maturity debt securities, available-for-sale financial assets, 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 2017 under these performance bonds was $305 million (30 June 2016: $305 million).

Employees and share option scheme

The Group had 1,994 full-time employees as at 30 June 2017 (30 June 2016: 2,140) with majority of them based in Hong Kong. Total staff costs were $ 733 million for the year ended 30 June 2017 (2015/16: $722 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, 3,000,000 share options were granted; and 352,500 share options were cancelled or lapsed. 3,000,000 (30 June 2016: 352,500) share options were outstanding as at 30 June 2017.

RESULTS

The Board of Directors of SmarTone Telecommunications Holdings Limited (the "Company") is pleased to present the consolidated profit and loss account and consolidated statement of comprehensive income for the year ended 30 June 2017 and the consolidated balance sheet as at 30 June 2017 of the Company and its subsidiaries (the "Group"), along with selected explanatory notes.

Consolidated Profit and Loss Account
For the year ended 30 June 2017

	Note	**2017** **$000**	2016 $000
Service revenue		**5,160,306**	5,470,880
Handset and accessory sales		**3,555,106**	12,884,731
Revenues	4	**8,715,412**	18,355,611
Cost of inventories sold		**(3,503,986)**	(12,794,787)
Staff costs		**(732,747)**	(721,616)
Other operating expenses		**(2,182,417)**	(2,178,680)
Depreciation, amortisation and loss on disposal	7	**(1,367,617)**	(1,556,150)
Operating profit		**928,645**	1,104,378
Finance income	5	**51,774**	60,253
Finance costs	6	**(137,220)**	(202,239)
Profit before income tax	7	**843,199**	962,392
Income tax expense	8	**(177,431)**	(174,982)
Profit after income tax		**665,768**	787,410
Attributable to			
Equity holders of the Company		**672,102**	797,150
Non-controlling interests		**(6,334)**	(9,740)
		665,768	787,410
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	9		
Basic		**61.7**	74.9
Diluted		**61.7**	74.8

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2017

	2017 **$000**	2016 $000
Profit for the year	**665,768**	787,410
Other comprehensive loss		
Items that may be reclassified subsequently to profit and loss:		
Fair value (loss)/gain on financial investments, net of tax	**(2,965)**	1,067
Currency translation differences	**(2,631)**	(4,867)
Other comprehensive loss for the year, net of tax	**(5,596)**	(3,800)
Total comprehensive income for the year	**660,172**	783,610
Total comprehensive income attributable to		
Equity holders of the Company	**666,506**	793,350
Non-controlling interests	**(6,334)**	(9,740)
	660,172	783,610

Consolidated Balance Sheet
At 30 June 2017

	Note	**2017 $000**	2016 $000
Non-current assets			
Leasehold land and land use rights		**11,383**	12,264
Fixed assets		**3,071,725**	3,235,992
Interest in an associate		**3**	3
Financial investments		**672,528**	747,924
Intangible assets		**3,631,399**	1,757,113
Deposits and prepayments		**91,076**	117,296
Deferred income tax assets		**6,130**	6,497
		7,484,244	5,877,089
Current assets			
Inventories		**181,703**	340,770
Financial investments		**47,568**	133,180
Trade receivables	11	**321,450**	274,456
Deposits and prepayments		**167,188**	192,387
Other receivables		**47,002**	90,809
Tax reserve certificate		**252,362**	252,362
Pledged bank deposits		**2,385**	2,385
Short-term bank deposits		**124,893**	341,053
Cash and cash equivalents		**1,146,795**	2,898,512
		2,291,346	4,525,914
Current liabilities			
Trade payables	12	**357,393**	577,913
Other payables and accruals		**804,562**	853,473
Current income tax liabilities		**399,342**	545,292
Bank borrowings		**133,636**	126,228
Customer prepayments and deposits		**224,202**	325,633
Deferred income		**206,023**	228,047
Mobile licence fee liabilities		**60,040**	206,325
		2,185,198	2,862,911
Non-current liabilities			
Customer prepayments and deposits		**47,044**	73,871
Asset retirement obligations		**47,378**	47,839
Bank and other borrowings		**2,557,049**	2,724,195
Mobile licence fee liabilities		**167,886**	203,506
Deferred income tax liabilities		**136,738**	126,846
		2,956,095	3,176,257
Net assets		**4,634,297**	4,363,835

Consolidated Balance Sheet
At 30 June 2017

	2017 **$000**	2016 $000
Capital and reserves		
Share capital	**110,581**	108,118
Reserves	**4,482,982**	4,208,649
Total equity attributable to equity holders of the Company	**4,593,563**	4,316,767
Non-controlling interests	**40,734**	47,068
Total equity	**4,634,297**	4,363,835

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 29 August 2017.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the years presented, unless otherwise stated.

3 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of certain available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) Changes in accounting policy and disclosures

(i) Amended standards relevant to and adopted by the Group

The following amendments to standards are relevant to and have been adopted by the Group for the financial year beginning on 1 July 2016.

Annual Improvements Project	Annual Improvements 2012-2014 Cycle
HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

3 Basis of preparation *(continued)*

(a) Changes in accounting policy and disclosures *(continued)*

(ii) 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 published and are mandatory for the Group's accounting periods beginning on or after 1 July 2017 or later periods but which the Group has not early adopted.

Annual Improvements Project	Annual Improvements 2014-2016 Cycle[2]
HKAS 7 (Amendments)	Statement of Cash Flows[1]
HKAS 12 (Amendments)	Income Taxes[1]
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures[2]
HKFRS 1 (Amendment)	First Time Adoption of HKFRS[2]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[2]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
HKFRS 9	Financial Instruments[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 12 (Amendments)	Disclosure of Interest in Other Entities[1]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration[2]
HK (IFRIC) 23	Uncertainty over Income Tax Treatments[3]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.

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

4 Segment 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 considers the business 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 segment is set out as follows:

(a) Segment results

	For the year ended 30 June 2017			
	Hong Kong $000	**Macau $000**	**Elimination $000**	**Consolidated $000**
Revenues	**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)**

4 Segment reporting *(continued)*

(a) Segment results *(continued)*

	For the year ended 30 June 2016			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
Revenues	18,165,278	725,222	(534,889)	18,355,611
EBITDA	2,635,371	25,157	-	2,660,528
Depreciation, amortisation and loss on disposal	(1,498,146)	(58,137)	133	(1,556,150)
Operating profit/(loss)	1,137,225	(32,980)	133	1,104,378
Finance income				60,253
Finance costs				(202,239)
Profit before income tax				962,392
Other information				
Additions to fixed assets	543,753	51,705	-	595,458
Additions to intangible assets	294,768	14,185	-	308,953
Depreciation	635,737	44,180	(27)	679,890
Amortisation of leasehold land and land use rights	670	-	-	670
Amortisation of intangible assets	852,635	13,242	-	865,877
Loss on disposal of fixed assets	9,104	715	(106)	9,713
Impairment loss of trade receivables	13,966	56	-	14,022
Impairment loss/(reversal of impairment loss) of inventories	603	(322)	-	281

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

4 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	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)**

	At 30 June 2016			
	Hong Kong	Macau	Unallocated	Consolidated
	$000	$000	$000	$000
Segment assets	8,898,894	364,143	1,139,966	10,403,003
Segment liabilities	(5,201,513)	(165,517)	(672,138)	(6,039,168)

The total of non-current assets other than interest in an associate, financial investments and deferred income tax assets located in Hong Kong is $6,565,670,000 (2016: $4,854,468,000), and the total of these non-current assets located in Macau is $239,913,000 (2016: $268,197,000).

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

	2017	2016
	$000	$000
Interest income from listed debt securities	**40,865**	31,179
Interest income from bank deposits	**10,275**	28,558
Accretion income	**634**	516
	51,774	60,253

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

	2017 $000	2016 $000
Interest expense		
Bank and other borrowings	**96,008**	97,723
Bank charges for credit card instalment	**2,692**	3,804
Accretion expenses		
Mobile licence fee liabilities	**31,688**	50,846
Asset retirement obligations	**1,413**	1,647
Net exchange loss on financing activities	**5,419**	48,219
	137,220	202,239

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:

	2017 $000	2016 $000
Charging:		
Cost of services provided	**326,691**	351,315
Operating lease rentals for land and buildings, transmission sites and leased lines	**1,043,465**	1,016,248
Impairment loss of trade receivables (note 11)	**18,554**	14,022
Impairment loss of inventories	**-**	281
Auditor's remuneration		
- Audit services	**2,527**	2,490
- Non-audit services	**986**	1,106
Net exchange loss	**5,449**	60,363
Loss on disposal of fixed assets	**4,335**	9,713
Depreciation of fixed assets, leasehold land and land use rights	**670,569**	680,560
Amortisation of handset subsidies	**436,448**	676,058
Amortisation of mobile licence fees	**256,265**	189,819
Crediting:		
Reversal of impairment loss of inventories	**3,276**	-

8 Income tax expense

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

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

	2017 **$000**	2016 $000
Current income tax		
Hong Kong profits tax	**170,674**	181,828
Overseas tax	**1,323**	1,363
(Over)/under-provision in prior years		
Hong Kong profits tax	**(1,638)**	(1,361)
Overseas tax	**(3,187)**	2
	167,172	181,832
Deferred income tax assets	**367**	306
Deferred income tax liabilities	**9,892**	(7,156)
Income tax expense	**177,431**	174,982

(b) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate of the home country of the Group as follows:

	2017 **$000**	2016 $000
Profit before income tax	**843,199**	962,392
Notional tax on profit before income tax, calculated at Hong Kong tax rate of 16.5% (2016: 16.5%)	**139,128**	158,795
Effect of different tax rates in other countries	**1,466**	2,402
Expenses not deductible for tax purposes	**1,683**	448
Income not subject to tax	**(4,672)**	(6,617)
Over-provision in prior years	**(4,825)**	(1,359)
Tax loss not recognised	**3,183**	5,338
Utilisation of previously unrecognised tax losses	**(2,220)**	(914)
Temporary differences not recognised	**43,688**	16,889
Income tax expense	**177,431**	174,982

9 Earnings per share

(a) Basic

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

	2017	2016
Profit attributable to equity holders of the Company ($000)	**672,102**	797,150
Weighted average number of ordinary shares in issue	**1,088,507,398**	1,064,519,219
Basic earnings per share (cents per share)	**61.7**	74.9

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For dilutive share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	2017	2016
Profit attributable to equity holders of the Company ($000)	**672,102**	797,150
Weighted average number of ordinary shares in issue	**1,088,507,398**	1,064,519,219
Adjustment for dilutive share options	**-**	597,725
Weighted average number of ordinary shares for diluted earnings per share	**1,088,507,398**	1,065,116,944
Diluted earnings per share (cents per share)	**61.7**	74.8

10 Dividends

	2017 $000	2016 $000
Interim dividend, paid, of 27 cents (2016: 27 cents) per share	**294,130**	286,722
Final dividend, proposed, of 33 cents (2016: 33 cents) per share	**364,789**	356,789
	658,919	643,511

For the dividends attributable to the years ended 30 June 2017 and 2016, scrip dividend elections were offered to shareholders.

At a meeting held on 29 August 2017, the directors proposed a final dividend of 33 cents per 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 2018.

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:

	2017 $000	2016 $000
Current to 30 days	**275,258**	244,690
31 - 60 days	**26,457**	19,385
61 - 90 days	**12,951**	4,362
Over 90 days	**6,784**	6,019
	321,450	274,456

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 $18,554,000 (2016: $14,022,000) for the impairment of its trade receivables during the year ended 30 June 2017. 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:

	2017	2016
	$000	$000
Current to 30 days	**157,533**	514,218
31 - 60 days	**85,232**	32,851
61 - 90 days	**49,759**	7,262
Over 90 days	**64,869**	23,582
	357,393	577,913

DIVIDENDS

The Directors recommended the payment of a final dividend for the year ended 30 June 2017 of 33 cents per share (2015/16: 33 cents). The proposed final dividend, together with the interim dividend of 27 cents per share paid by the Company during the year (2015/16: 27 cents), makes a total dividend for the year of 60 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 Monday, 20 November 2017.

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 Tuesday, 19 December 2017 to shareholders whose names appear on the Register of Members of the Company on Friday, 10 November 2017.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company is scheduled to be held on Thursday, 2 November 2017. For determining the entitlement to attend and vote at the Annual General Meeting, the Register of Members of the Company will be closed from Monday, 30 October 2017 to Thursday, 2 November 2017, 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 Friday, 27 October 2017.

The record date for entitlement to the proposed final dividend is Friday, 10 November 2017. For determining the entitlement to the proposed final dividend, the Register of Members of the Company will be closed for one day on Friday, 10 November 2017 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 Thursday, 9 November 2017.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 30 June 2017, the Company repurchased 8,192,000 shares of the Company on The Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled prior to 30 June 2017. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid
		$	$	$
August 2016	1,394,000	12.88	12.20	17,426,000
September 2016	491,000	12.68	12.58	6,209,000
December 2016	1,506,500	10.36	10.22	15,507,000
March 2017	1,769,500	10.08	10.00	17,749,000
April 2017	3,031,000	10.20	10.08	30,824,000
	8,192,000			87,715,000

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 2017 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 2017. 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 2017.

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 2017, the Company has applied the principles and complied with the requirements set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules, except for the following deviations:

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

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Tsim Wing-kit, Alfred, Non-Executive Director, and Dr. Li Ka-cheung, Eric, Mr. Yang Xiang-dong, Mr. Gan Fock-kin, Eric and Mrs. Ip Yeung See-ming, Christine, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 1 November 2016 due to overseas commitments or other prior engagements. The remaining seven Independent Non-Executive Directors and Non-Executive Directors (representing 58% of all independent non-executive and non-executive members of the Board at the time) attended the said meeting in person to listen to the views expressed by the shareholders.

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

Full details of the report on corporate governance will be set out in the Company's 2016/17 Annual Report.

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

Hong Kong, 29 August 2017

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. YANG Xiang-dong, Mr. GAN Fock-kin, Eric, Mrs. IP YEUNG See-ming, Christine and Mr. LAM Kwok-fung, Kenny.