SmarTone Telecommunications Holdings Limited

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

2021 / 2022 INTERIM RESULTS ANNOUNCEMENT

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

- Reported profit attributable to equity holders was $251M, down 6% compared to $267M in 1H FY21
- Core business remained resilient; service revenue increased 3% to $2,242M
- Mobile postpaid exit ARPU increased 4% to $210; postpaid churn rate at 0.7%
- Additional spectrum acquired to enhance 5G coverage and performance
- The Board declares an interim dividend of 14.5 cents per share, same as last year

CHAIRMAN'S STATEMENT

Business review

For the period under review, the Company delivered a profit attributable to equity holders of $251M, down 6% compared to $267M in the same period last year. SmarTone received government subsidies in 1H FY21, and discounting the impact of the subsidies, profit for the current period actually increased. This was achieved despite subdued roaming revenues and a mobile market which has remained very competitive.

During this period, service revenue increased 3% and mobile postpaid exit ARPU grew 4% to $210. Since the launch of 5G in May 2020, the Company has experienced strong customer uptake, with subscribers to 5G services now ~20% of the postpaid MNO base. 5G plans are achieving a material premium and delivering a higher ARPU over 4G plans. Benefitting from the corporate digitalization drive, the Enterprise Solutions business was a key contributor to revenue growth. In addition, SmarTone's 5G Home Broadband service continued its strong subscriber growth, offering high-speed connectivity at lower cost, to customers who currently suffer from low-speed or high service fees from their current home broadband service provider.

The Company launched a cost efficiency program to manage the impact of the pandemic without compromising service quality. The program has achieved material productivity improvement and savings, much of which are recurring. As part of SmarTone's continuing digitalization, further measures have been planned to deliver efficiency improvements. The savings from these programs have allowed the Company to reinvest in other priority areas, such as enhancements to our network and customer services.

Following the launch of the SmarTone 5G network in May 2020, the team has worked tirelessly to deliver a world-class 5G network experience. 5G offers significant benefits over 4G with faster speeds, improved bandwidth, lower latency and improved reliability and security. The enhanced customer experience of 5G is especially felt when using applications such as Zoom and online education. During the last few years these applications have become increasingly important as physical meetings may not always be possible. 5G allows our customers, not just to work from home but, to “work anywhere” and “learn anywhere”. In addition, because 5G’s uplink speed is substantially faster than 4G, this enables a whole host of other applications from gaming to security systems.

As of today, SmarTone’s 5G network extends to 99% of the population, and covers all MTR lines, major roads, highways, and tunnels. SmarTone also focused on expanding coverage of major hiking trails and country parks to meet changing customer needs. In response to the COVID situation in the city, SmarTone’s 5G network coverage has been extended to the Penny’s Bay Quarantine Centre. In October 2021, the Company successfully acquired additional spectrum at a reasonable cost. The Company now has the most spectrum resources per subscriber amongst all operators. The Company will continue to invest more. We aspire to build a true “state-of-the-art” network for our customers and for Hong Kong, through extending our coverage and the quality of our connectivity. In recognition of SmarTone’s network quality, six influential magazines and journals have ranked the Company’s 5G network as number one in Hong Kong.

Our 5G Home Broadband service is ramping up well and has received very positive customer feedback. There are currently many households in Hong Kong which suffer from very low internet speeds. There are other households which suffer from very expensive fees because they are often served by a single operator and they have no choice. Some households may pay up to $500-600 a month just for their fixed line connection. Our 5G Home Broadband provides a choice for consumers against the existing dominant fixed-line carriers. Our service is super-fast and often cheaper than our competitors. Customers can even try before committing, and we have found that over 90% of those who tried ended up subscribing to the service long-term. We think this is important not just as a business for us, but also as a service for communities that don’t have access to fast-speed access, especially in rural areas. This is particularly critical during the pandemic.

SmarTone believes the development of Hong Kong into a technology hub hinges on the availability of a world-class digital infrastructure, such as 5G. Through SmarTone’s 5G Lab, the Company has been raising awareness among businesses and consumers on the opportunities and advanced services made possible with 5G technology and demonstrating how 5G infrastructure will support the city’s development. Since its launch in May 2021, the 5G Lab has welcomed approximately 400,000 visitors, and hosted students from more than 200 high schools, with the objective of educating the youth and raising their interest in technology. In addition to benefitting society at large, SmarTone believes the promotion of 5G will help accelerate its adoption over time.

During the period, the Enterprise Solutions business continued to grow as an increasing number of corporates launched their digitalization efforts, with revenue registering strong double-digit growth. For instance, SmarTone’s award-winning Smart Construction offering, has been adopted by many leading construction companies. This solution enables site worker safety monitoring and detection through 5G, IoT and AI-powered video analytics technology. But construction is only one of the many areas where digitalization brings enormous efficiency gains. There are many more applications in other sectors such as retail, healthcare, education, property management, etc. Our major shareholder, the Sun Hung Kai Properties Group, has itself become a key customer of SmarTone in its adoption of digital applications. We believe digitalization is an important pillar for Hong Kong to become a successful technology hub. SmarTone will continue to play a key role in providing solutions to enterprises to build up their digital capabilities which is expected to accelerate.

SmarTone itself is undergoing a digital transformation. We are using our digital channels and our data, supported by AI, to enhance customer service. For instance, we have expanded our channels for “complaints” from customers (you can do so in person, on an app, with a QR code, etc.). This, in conjunction with “machine learning”, has allowed us to understand our customers better, and to identify areas for improvement in our network, call centres and services as well as improve productivity.

As the fifth wave of Covid hits Hong Kong hard, we are committed to using our resources in our fight against the pandemic. This is a critical time as people, more than ever before, need to stay in touch with colleagues and family members but may not be able to meet physically. In light of this, SmarTone has undertaken a number of initiatives in response to the COVID-related challenges faced by the community. The “Quarantine Without Losing Touch” initiative provides free data and calls as well as 5G broadband access to customers under quarantine in Penny’s Bay to help them stay connected with family and friends. The Company also made available a special 6-month 5G Home Broadband contract offer to cater to families’ work-from-home and e-learning needs. In addition, as part of SmarTone’s support for the “Jockey Club Digital Support Project for the Elderly”, the Company provides smartphones and free basic mobile service to help elderly citizens facilitate downloads and use of the “LeaveHomeSafe” app, as well as help them stay connected with their loved ones and the community. SmarTone is committed to the well-being of Hong Kong and will deploy all available resources to help the city get through the latest wave of the pandemic.

Dividend

The Board declared an interim dividend of 14.5 cents per share, which is the same as last year. The Company intends to continue to pay a dividend equivalent to 75% of profit attributable to equity holders on a full-year basis.

Outlook

The operating environment continues to be challenging due to the persistence of the pandemic. The new wave of Omicron, which is hitting Hong Kong harder than any previous waves, is adding to the uncertainty. Spectrum amortization costs will also be higher in 2H FY22, placing additional pressure on profitability. Notwithstanding the difficult environment, the Company and its profitability have remained resilient. Business momentum is strong, and there will be renewed focus on bringing more of our customers on board to enjoy the benefits of 5G.

Spectrum costs remain a major cost item for mobile operators. In contrast to China where no spectrum fees are charged, operators in Hong Kong are required to pay hefty spectrum fees. Since 2011, SmarTone has paid or committed to a total of $7 billion on spectrum fees. Our annual spectrum amortization cost this year will be in excess of $400m. Furthermore, while in the past such spectrum costs were tax deductible, this position has now been changed by the Inland Revenue Department. Spectrum costs are now categorized as capital in nature and not tax deductible, consequently the Group has had to buy $345m in tax reserve certificates because of this change. We strongly disagree with this assessment and will challenge this position in court. Our use of specific spectrum is limited in time, and such spectrum is not transferrable and as such, spectrum costs should be part of normal operating expenses and tax deductible. At the end of the day, such hefty fees and taxes are creating disincentives against us when we are trying to build the best network for Hong Kong. We have effectively been asked to pay hefty spectrum fees, plus taxes on the spectrum fees, on top of general corporate taxes. These fees and taxes are taking away capital which should have been used to improve our network and digital infrastructure. Recently Singapore has committed to investing heavily in various digital infrastructure and capabilities, including 5G, 6G and beyond. Likewise Hong Kong needs to ensure that we invest in and build up our digital capabilities, and SmarTone is committed to supporting such an effort.

As a leading operator, SmarTone is committed to investing in building a world-class digital infrastructure in 5G and beyond. We believe this is important both for Hong Kong's aspiration to be a technology hub and for its integration with China and specifically with the Greater Bay Area.

Appreciation

I am pleased to welcome Mr. Tam Lok-man, Norman to the Company as Executive Director and Deputy Chief Executive Officer. Norman joins us with twenty five years of experience in product development, operation management and startup investment in the Internet and Technology sector. Norman is also very knowledgeable in digitalization and AI – his expertise will be leveraged to help SmarTone to understand and serve its customers, and to help business clients as they embark on their digitalization journeys.

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

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 23 February 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Review of financial results

During the period under review, the Group profit attributable to shareholders decreased slightly to $251 million (first half of 2020/21: $267 million). Excluding government subsidies received in the first half of 2020/21, the Group profit attributable to shareholders increased mainly due to strong 5G customer uptake driving local mobile revenue growth and strong growth in 5G Home Broadband contributing to profitability.

Group service revenue increased by 3% to $2,242 million (first half of 2020/21: $2,172 million) mainly due to strong 5G customer uptake and strong growth in 5G Home Broadband. Mobile postpaid exit ARPU increased 4% to $210 (first half of 2020/21: $201). Compared with the second half of 2020/21, Group service revenue increased by $76 million or 3%, mainly due to an increase in local service revenue.

Group's handset and accessory sales increased by $477 million or 44% to $1,549 million when compared with $1,072 million for the same period last year, mainly due to strong sales in 5G flagship phones as a result of enhanced customer engagement. Compared with the second half of 2020/21, Group's handset and accessory sales increased by $240 million or 18% due to the availability of 5G flagship phones.

As a result, Group total revenue increased by 17% to $3,792 million (first half of 2020/21: $3,244 million) mainly due to higher local service revenue and handset and accessory sales.

Hong Kong customer number reduced 0.1 million to 2.7 million compared to last year at 2.8 million mainly due to the expiry of prepaid travel cards. Excluding MVNO customers, the postpaid churn rate was at a low 0.7%, unchanged from the same period last year.

Cost of inventories sold increased by $454 million or 44% to $1,492 million (first half of 2020/21: $1,039 million), largely in line with the corresponding increase in handset and accessory sales with improved margins for handset sales.

Staff costs increased by $69 million or 28% to $320 million (first half of 2020/21: $250 million) mainly due to the absence of government subsidy from Employment Support Scheme. Excluding the government subsidy received in the first half of 2020/21, staff costs decreased by 3% as the result of cost efficiency program that delivered recurring savings.

Cost of services provided and other operating expenses remained flat (first half of 2020/21: $683 million) as the cost efficiency program remains in place to reduce cost and allowed for investment in the business in the area of branding, new store and sales and marketing capabilities.

Depreciation, amortization and loss on disposal increased by $13 million or 2% to $906 million (first half of 2020/21: $893 million) mainly due to increase in amortization of spectrum utilization fee offset by decrease in right-of-use assets depreciation driven by rental reduction.

Finance income decreased by $8 million or 45% to $10 million (first half of 2020/21: $19 million) mainly due to lower bank interest rates and expected credit loss on bond investments.

Finance costs increased by $9 million or 17% to $66 million (first half of 2020/21: $56 million) mainly due to higher accretion expense from spectrum utilization fee offset by lower accretion expense from lease liabilities.

Income tax expense amounted to $83 million (first half of 2020/21: $78 million), reflecting an effective tax rate of 24.9% (first half of 2020/21: 22.7%). In light of the uncertainty of the tax deductibility of the spectrum utilization fees, certain payments have been treated as non-deductible, which contributes to the Group effective tax rate higher than 16.5%. The Group will continue to vigorously defend its position and pursue tax deduction of the spectrum utilization fees from the Inland Revenue Department.

Group EBITDA increased by $24 million to $1,297 million (first half of 2020/21: $1,273 million). Group operating profit was $391 million, increased by 3% (first half of 2020/21: $380 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 2021, the Group recorded share capital of $111 million, total equity of $5,167 million and total borrowings of $1,546 million.

The Group's cash resources remained robust with cash and bank balances of $2,101 million as at 31 December 2021 (30 June 2021: $2,095 million).

As at 31 December 2021, the Group had bank and other borrowings of $1,546 million (30 June 2021: $1,588 million) of which 96% were denominated in United States dollars and were arranged on a fixed rate basis. The Group was in a net cash position with net cash, including financial assets at amortized cost, amounted to $973 million as at 31 December 2021 (30 June 2021: $994 million). Excluding the purchase of $93 million tax reserve certificate, net cash increased to $1,066 million as at 31 December 2021.

The Group had net cash generated from operating activities and interest received of $1,060 million and $19 million respectively during the period ended 31 December 2021. The Group's major outflows of funds during the period were payments for purchase of fixed assets, mobile license fees, leases, dividends, tax reserve certificate and repayment of bank borrowings.

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

Treasury policy

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

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

Charges on assets

Certain Hong Kong dollar denominated bank borrowings were secured by certain assets of the Group and the carrying amount of the pledged assets amounted to $69 million as at 31 December 2021 (30 June 2021: $70 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 4% of the Group's total borrowings at 31 December 2021. The remaining 96% of the Group's borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential increase in interest rates in the future. The Group does not currently undertake any interest rate hedging.

Functional currency and foreign exchange exposure

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

Contingent liabilities

As at 31 December 2021, the Group provided performance and financial guarantees of $809 million (30 June 2021: $2,401 million).

Employees, share award scheme and share option scheme

The Group had 1,702 full-time employees as at 31 December 2021 (30 June 2021: 1,665), with the majority of them based in Hong Kong. Total staff costs were $320 million for the period ended 31 December 2021 (first half of 2020/21: $250 million).

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

A share award scheme was adopted by the Group as an incentive arrangement to recognize the contributions by certain employees and to attract and retain suitable personnel for the development of the Group. During the period under review, 152,520 shares were lapsed. 1,257,160 shares (30 June 2021: 1,409,680) were outstanding as at 31 December 2021.

The Group has share option scheme under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. No share option was outstanding as at 31 December 2021 (30 June 2021: Nil).

RESULTS

The Board of Directors of SmarTone Telecommunications Holdings Limited (the "Company") is pleased to present the consolidated profit and loss account and the consolidated statement of comprehensive income for the six months ended 31 December 2021 and the consolidated balance sheet as at 31 December 2021 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 2021

	Notes	Unaudited six months ended 31 December **2021** **$000**	2020 $000
Service revenue and other related service		**2,242,404**	2,172,158
Handset and accessory sales		**1,549,118**	1,072,155
Revenues	3	**3,791,522**	3,244,313
Cost of inventories sold		**(1,492,196)**	(1,038,545)
Cost of services provided		**(194,092)**	(200,280)
Staff costs		**(319,809)**	(250,462)
Other operating expenses, net		**(488,454)**	(482,375)
Depreciation, amortization and loss on disposal	6	**(906,066)**	(892,636)
Operating profit		**390,905**	380,015
Finance income	4	**10,416**	18,789
Finance costs	5	**(65,808)**	(56,377)
Profit before income tax	6	**335,513**	342,427
Income tax expense	7	**(83,436)**	(77,586)
Profit after income tax		**252,077**	264,841
Profit attributable to			
Company's shareholders		**251,383**	266,596
Non-controlling interests		**694**	(1,755)
		252,077	264,841
Earnings per share for profit attributable to the Company's shareholders during the period (expressed in cents per share)	8		
Basic		**22.6**	23.8
Diluted		**22.6**	23.8

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2021

	Unaudited six months ended 31 December	
	2021	2020
	$000	$000
Profit for the period	**252,077**	264,841
Other comprehensive (loss)/income		
Item that may be reclassified subsequently to profit and loss:		
Currency translation differences	**271**	2,765
Item that will not be reclassified subsequently to profit and loss:		
Fair value (loss)/gain on financial asset at fair value through other comprehensive income	**(2,632)**	5,874
Other comprehensive (loss)/income for the period	**(2,361)**	8,639
Total comprehensive income for the period	**249,716**	273,480
Total comprehensive income attributable to		
Company's shareholders	**249,022**	275,235
Non-controlling interests	**694**	(1,755)
	249,716	273,480

Condensed Consolidated Balance Sheet
As at 31 December 2021 and 30 June 2021

	Notes	**Unaudited 31 December 2021 $000**	Audited 30 June 2021 $000
Non-current assets			
Fixed assets		**2,692,798**	2,679,862
Customer acquisition costs		**83,656**	76,874
Contract assets		**44,311**	68,571
Right-of-use assets		**857,378**	904,627
Interest in an associate		**3**	3
Financial asset at fair value through other comprehensive income		**14,123**	16,755
Financial assets at amortized cost		**377,475**	422,825
Intangible assets		**5,067,005**	3,119,536
Deposits and prepayments		**157,959**	167,485
Deferred income tax assets		**10,118**	5,585
Total non-current assets		**9,304,826**	7,462,123
Current assets			
Inventories		**198,477**	57,423
Financial assets at amortized cost		**40,544**	64,641
Contract assets		**100,869**	117,342
Trade receivables	10	**365,778**	332,177
Deposits and prepayments		**229,869**	211,331
Other receivables		**68,637**	56,654
Tax reserve certificate		**346,418**	253,484
Cash and cash equivalents		**2,100,936**	2,094,884
Total current assets		**3,451,528**	3,187,936
Current liabilities			
Trade payables	11	**525,742**	414,085
Other payables and accruals		**739,381**	722,367
Contract liabilities		**348,247**	304,111
Lease liabilities		**519,105**	546,301
Current income tax liabilities		**465,037**	492,981
Bank borrowings		**55,063**	77,189
Mobile license fee liabilities		**210,243**	102,912
Total current liabilities		**2,862,818**	2,659,946

Condensed Consolidated Balance Sheet
As at 31 December 2021 and 30 June 2021

	Unaudited 31 December 2021 $000	Audited 30 June 2021 $000
Non-current liabilities		
Asset retirement obligations	**72,062**	67,374
Contract liabilities	**20,664**	24,640
Lease liabilities	**325,796**	351,465
Bank and other borrowings	**1,490,538**	1,510,771
Mobile license fee liabilities	**2,696,979**	826,962
Deferred income tax liabilities	**120,663**	111,793
Total non-current liabilities	**4,726,702**	2,893,005
Net assets	**5,166,834**	5,097,108
Capital and reserves		
Share capital	**111,053**	111,099
Reserves	**5,076,952**	5,007,874
Total equity attributable to the Company's shareholders	**5,188,005**	5,118,973
Non-controlling interests	**(21,171)**	(21,865)
Total equity	**5,166,834**	5,097,108

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 statements ("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 23 February 2022.

Certain comparative figures have been reclassified to conform to the current period's presentation.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2021 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). These Interim Financial Statements have been prepared on a historical cost basis, except for the financial asset at fair value through other comprehensive income, measured at fair value, and on a going concern basis.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2021, as described in those annual financial statements except for the adoption of the amendments to standards as set out below.

(a) Amendments to standards adopted by the Group

The Group has applied the following amendments to standards for the first time for their annual reporting commencing 1 July 2021.

HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform - Phase 2
HKFRS 16 (Amendments)	COVID-19-related Rent Concessions beyond 30 June 2021

The adoption of these amendments to standards have no significant impact on these Interim Financial Statements.

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

2 Basis of preparation *(continued)*

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

Certain new standards, amendments to standards and interpretations to existing standards have been published that are not mandatory for 30 June 2022 reporting periods and have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 2018-2020 Cycle[1]
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current[2]
HKAS 1 (Amendments) and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
HKAS 8 (Amendments)	Definition of Account Estimates[2]
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use[1]
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract[1]
HKFRS 3 (Amendments)	Reference to the Conceptual Framework[1]
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope Amendments[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[2]
HK-Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[2]

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

3 Segment reporting

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

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

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 2021			
	Hong Kong $000	**Macau $000**	**Elimination $000**	**Consolidated $000**
External revenue	**3,531,908**	**259,614**	**-**	**3,791,522**
Inter-segment revenue	**221,537**	**3,603**	**(225,140)**	**-**
Total revenue	**3,753,445**	**263,217**	**(225,140)**	**3,791,522**
Timing of revenue recognition				
At a point in time	**1,537,744**	**231,976**	**(220,602)**	**1,549,118**
Over time	**2,215,701**	**31,241**	**(4,538)**	**2,242,404**
	3,753,445	**263,217**	**(225,140)**	**3,791,522**
EBITDA	**1,290,170**	**6,801**	**-**	**1,296,971**
Depreciation, amortization and loss on disposal	**(902,673)**	**(3,393)**	**-**	**(906,066)**
Operating profit	**387,497**	**3,408**	**-**	**390,905**
Finance income				**10,416**
Finance costs				**(65,808)**
Profit before income tax				**335,513**

3 **Segment reporting** *(continued)*

(a) Segment results *(continued)*

	Unaudited six months ended 31 December 2020			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
External revenue	3,168,386	75,927	-	3,244,313
Inter-segment revenue	37,446	2,717	(40,163)	-
Total revenue	3,205,832	78,644	(40,163)	3,244,313
Timing of revenue recognition				
At a point in time	1,070,440	38,561	(36,846)	1,072,155
Over time	2,135,392	40,083	(3,317)	2,172,158
	3,205,832	78,644	(40,163)	3,244,313
EBITDA	1,275,556	(2,905)	-	1,272,651
Depreciation, amortization and loss on disposal	(890,293)	(2,344)	1	(892,636)
Operating profit/(loss)	385,263	(5,249)	1	380,015
Finance income				18,789
Finance costs				(56,377)
Profit before income tax				342,427

3 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 31 December 2021 (Unaudited)			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**11,866,418**	**101,255**	**788,681**	**12,756,354**
Segment liabilities	**(6,892,251)**	**(111,569)**	**(585,700)**	**(7,589,520)**

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

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

4 Finance income

	Unaudited six months ended 31 December	
	2021	2020
	$000	$000
Interest income from listed debt securities	**11,425**	10,437
Credit loss allowance on listed debt securities	**(4,300)**	-
Interest income from bank deposits	**3,202**	7,868
Accretion income	**89**	484
	10,416	18,789

During the six months ended 31 December 2021, credit loss allowance of $4,300,000 was recognized to reflect the change in credit risk for the financial assets at amortized cost.

5 Finance costs

	Unaudited six months ended 31 December	
	2021	2020
	$000	$000
Interest expense on bank and other borrowings	**31,477**	33,751
Accretion expenses		
Mobile license fee liabilities	**22,915**	8,744
Asset retirement obligations	**224**	224
Lease liabilities	**6,884**	13,450
Net exchange loss on financing activities	**4,308**	208
	65,808	56,377

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

6 Profit before income tax

Profit before income tax is stated after charging the following:

	Unaudited six months ended 31 December	
	2021	2020
	$000	$000
Other operating expenses, net		
- Network costs	**269,509**	273,669
- Short-term and low-value leases	**20,710**	19,105
- Impairment loss of trade receivables (note 10)	**2,662**	4,877
- Net exchange loss	**1,265**	2,434
- Others	**194,308**	182,290
Loss on disposal of fixed assets	**8,195**	4,550
Depreciation of fixed assets	**321,202**	331,094
Depreciation of right-of-use assets	**339,846**	365,704
Amortization of mobile license fees	**197,562**	156,138
Amortization of customer acquisition costs	**39,261**	35,150
Share-based payments	**1,648**	5,322

7 Income tax expense

	Unaudited six months ended 31 December	
	2021	2020
	$000	$000
Current income tax		
Hong Kong profits tax	**79,268**	68,321
Overseas tax	**1,025**	931
(Over)/under-provision in prior years		
Hong Kong profits tax	**(1,027)**	12,774
Overseas tax	**(167)**	-
Total current income tax expense	**79,099**	82,026
Deferred income tax		
Increase in deferred income tax assets	**(4,533)**	(4,508)
Increase in deferred income tax liabilities	**8,870**	68
Total deferred income tax expense/(benefit)	**4,337**	(4,440)
Income tax expense	**83,436**	77,586

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

8 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to the Company's shareholders
- by the weighted average number of ordinary shares outstanding during the period and excluding shares held for share award scheme.

	Unaudited six months ended 31 December	
	2021	2020
	Cents	Cents
Total basic earnings per share attributable to the Company's shareholders	**22.6**	23.8

8 Earnings per share *(continued)*

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	Unaudited six months ended 31 December	
	2021	2020
	Cents	Cents
Total diluted earnings per share attributable to the Company's shareholders	**22.6**	23.8

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

	Unaudited six months ended 31 December	
	2021	2020
	$000	$000
Profit attributable to the Company's shareholders used in calculating basic earnings per share and diluted earnings per share	**251,383**	266,596

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

	Unaudited six months ended 31 December	
	2021	2020
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (less shares held for share award scheme)	**1,110,580,570**	1,118,446,499
Adjustments for calculation of diluted earnings per share:		
Effect of awarded shares	**20,422**	119,040
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,110,600,992**	1,118,565,539

9 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2021	2020
	$000	$000
Interim dividend declared of 14.5 cents (2020: 14.5 cents) per fully paid share	**160,767**	161,093

At a meeting held on 23 February 2022, the directors declared an interim dividend of 14.5 cents per fully paid share for the year ending 30 June 2022. 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 2022.

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	
	2021	2020
	$000	$000
Final dividend of 15.5 cents (2020: 15 cents) per fully paid share	**172,203**	167,880

10 Trade receivables

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

	Unaudited 31 December 2021 $000	Audited 30 June 2021 $000
Current to 30 days	**289,384**	278,211
31 - 60 days	**20,975**	15,444
61 - 90 days	**6,695**	6,040
Over 90 days	**48,724**	32,482
	365,778	332,177

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in a loss of $2,662,000 (2020: $4,877,000) for the impairment of its trade receivables during the six months ended 31 December 2021.

11 Trade payables

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

	Unaudited 31 December 2021 $000	Audited 30 June 2021 $000
Current to 30 days	**426,092**	251,096
31 - 60 days	**45,932**	56,020
61 - 90 days	**9,251**	38,657
Over 90 days	**44,467**	68,312
	525,742	414,085

INTERIM DIVIDEND

The Directors declared an interim dividend of 14.5 cents per share for the six months ended 31 December 2021 (2020: 14.5 cents). The interim dividend will be paid in cash on or about Friday, 18 March 2022 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 9 March 2022.

CLOSURE OF REGISTER OF MEMBERS

The record date for entitlement to the interim dividend is Wednesday, 9 March 2022. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Wednesday, 9 March 2022 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 Tuesday, 8 March 2022.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 31 December 2021, the Company repurchased 2,249,000 shares of the Company on The Stock Exchange of Hong Kong Limited. Of these repurchased shares, 455,000 shares were cancelled prior to 31 December 2021 and 1,794,000 shares were cancelled subsequently after 31 December 2021. 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
		$	$	$
November 2021	1,386,500	4.32	4.15	5,877,000
December 2021	862,500	4.15	4.10	3,558,000
	2,249,000			9,435,000

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 2021 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 2021 as well as the report of the Risk Management Committee and the report of Internal Audit. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are appropriate and in line with the market participants in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the 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 2021 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 2021, the Company has applied the principles and complied with the requirements set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules, except for the following deviations:

Code Provision A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term. Non-Executive Directors of the Company are not appointed with 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, Mr. David Norman Prince, Non-Executive Director, 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 2 November 2021 due to overseas commitments or other prior engagements. The remaining seven Independent Non-Executive Directors and Non-Executive Directors (representing 64% 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, Executive Director, 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, 23 February 2022

As at the date of this announcement, the Executive Directors of the Company are Mr. FUNG Yuk-lun, Allen (Deputy Chairman), Mr. TAM Lok-man, Norman (Deputy Chief Executive Officer) and Mr. CHAU Kam-kun, Stephen; Non-Executive Directors are Mr. KWOK Ping-luen, Raymond (Chairman), Mr. CHEUNG Wing-yui (Deputy Chairman), Mr. David Norman PRINCE, Mr. SIU Hon-wah, Thomas and Mr. John Anthony MILLER; Independent Non-Executive Directors are Dr. LI Ka-cheung, Eric, JP, Mr. NG Leung-sing, JP, Mr. GAN Fock-kin, Eric, Mrs. IP YEUNG See-ming, Christine, Mr. LAM Kwok-fung, Kenny and Mr. LEE Yau-tat, Samuel.