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SmarTone Telecommunications Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 315)

2019 / 2020 ANNUAL RESULTS ANNOUNCEMENT

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

- The business environment has been very challenging due to COVID-19; especially because of the impact on roaming revenues
- Underlying profit attributable to equity holders decreased 24% from \$581 million to \$440 million, primarily due to the decline in roaming revenues. Taking into account the one-off fixed asset impairment, reported profit was 40% lower at \$379 million

Profit attributable to equity holders (\$M)	FY19	FY20	% change
Underlying (ex. one-off cost adjustment in FY19 and impairment in FY20)	581	440	-24%
Reported	632	379	-40%

- Excluding roaming, the core SmarTone business remained resilient; customer numbers increased 6% to 2.7 million; postpaid churn rate improved to an industry-low of 0.7%
- In May, 5G was launched providing the widest network coverage using industry-leading Dynamic Spectrum Sharing technology
- The Board proposes a final dividend of 15 cents per share, bringing full year dividend to 29.5 cents per share, in line with the 75% payout policy of underlying profit attributable to equity holders (excluding one-off items)

CHAIRMAN'S STATEMENT

Business review

The year under review has been one of the most challenging in recent memory as the COVID-19 pandemic severely affected both business operations, as well as our customers' way of life. The Group's profitability suffered; the decline was primarily due to the collapse in roaming revenues (both inbound and outbound) as international travel was severely restricted. In addition, a fixed asset impairment of our subsidiary in Macau was recognised in view of business uncertainties and the impact of COVID-19.

Underlying profit attributable to equity holders, which excludes a one-off cost adjustment in FY19 and the Macau impairment in FY20, dropped 24% from \$581 million to \$440 million. Reported profit attributable to equity holders was \$379 million, 40% lower compared to the prior year profit of \$632 million.

The Company has made an impairment for our Macau business, mainly for the network assets. The Macau mobile telecom market is highly competitive and even more so under COVID-19. We face an unlevel playing field in our competition: very high backhaul costs from one predominant operator, and substantial government charges. We are currently conducting a strategic review on the viability of the business.

To strengthen the resilience of the Company, management has already initiated a program of cost reduction and productivity improvement. The savings will primarily come from “non-network” related areas to ensure that the quality of the network, one of the key strengths of the Company, will not be impacted.

Leaving the impact of roaming aside, the core business of SmarTone was resilient during the last financial year. The number of subscribers increased by 6%, and mobile postpaid customers (ex. MVNO) also increased 4%. Under the non-HKFRS 16 accounting standard, service revenues excluding roaming increased 1%, and operating costs have been kept flat. Postpaid churn has improved to an industry low at 0.7% due to SmarTone’s outstanding network performance and superior customer service.

There were some areas where we saw early signs of good growth. SmarTone’s enterprise business (including enterprise solutions) has seen strong growth. Our solutions have received industry recognition for their ability to assist corporations to improve performance and enhance efficiency. For instance, SmartWorks received the 1st Prize for construction safety in the Construction Innovation Award 2019 presented by the Construction Industry Council. SmarTone’s portfolio of solutions in industries range from construction and hospitality, to facility management, and is focused on the growing corporate demand for digital transformation.

In May, SmarTone launched its 5G service in Hong Kong, offering 5G connectivity with data speed up to 10 times faster than that of 4G. Through partnership with Ericsson, the Company was the first in Asia to introduce the industry-leading Dynamic Spectrum Sharing (DSS) technology, enabling a speedy 5G network rollout with the widest coverage across Hong Kong at launch, both indoor and outdoor, including major shopping malls, premium hotels and prime office buildings. Also, by deploying the newly acquired 3.5GHz spectrum and utilising a combination of low, mid and high spectrum bands, the Company is able to deliver ultra-fast speed and super-low latency with ample capacity at high-traffic locations.

Dividend

In line with the Company’s 75% payout policy, the Board proposes a final dividend of 15 cents, making a full-year dividend of 29.5 cents per share, based on underlying profit attributable to equity holders of \$440 million (excluding the impairment of a subsidiary).

Outlook

It is difficult to know when international travel restrictions will be relaxed and finally lifted. It is likely travel within the Greater Bay area will resume earlier than general travel, and that will materially improve our roaming revenues. Nonetheless, the coming year is still likely to be a very difficult one.

Despite the uncertain economic environment, there are a number of opportunities for the Company to expand its revenue streams. It is early days for 5G, but the uptake, as our customers renew their contracts, has been encouraging, even though the choice of 5G handsets is limited at this stage. At a time when users rely more than ever on their mobile devices for online activities, the faster speed provided by 5G is meaningful. Also, there has been a strong demand for our suite of cyber-security services, as users increasingly become aware of the dangers of data breaches. In addition, the Company will soon launch its 5G home broadband service. It is estimated at least 20% to 30% of Hong Kong households suffer either from expensive broadband fees (because of single operator access) or slow broadband speeds. 5G home broadband can address such pain-points, providing households with strong internet speed and plug-and-play convenience, at a reasonable cost.

The difficult economic environment does not change SmarTone's core focus for customers – to provide the best network and service. In light of this, the Company will continue to upgrade the network and invest in 5G. Through a very successful partnership with Ericsson and our backhaul providers, we will be able to step up our network quality and coverage at highly effective costs.

Appreciation

In July, Ms. Anna Yip tendered her resignation as Executive Director, the Chief Executive Officer, and the Authorised Representative of the Company. In May, Mr. Chan Kai-lung, Patrick, announced his retirement as Executive Director and Chief Financial Officer. Both Ms. Yip and Mr. Chan have contributed to the Company. Patrick, in particular, has supported the Company since its beginning, and has in total served the Company for 18 years. I would like to thank them for their contribution over the years.

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 in supporting the Company through this challenging year.

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 2 September 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Review of financial results

During the year under review, the Group profit attributable to equity holders was 40% lower at \$379 million (2018/19: \$632 million). The decline was primarily due to a substantial decline in roaming revenue as a result of travel restrictions from COVID-19, impairment loss of fixed assets and right-of-use assets at the Macau segment, and lower profitability in the handset business.

Group service revenue decreased by 1% to \$4,580 million (2018/19: \$4,634 million) mainly due to the significant decrease in roaming revenue, partially offset by an increase in lease income under HKFRS 16, as well as the growth in Enterprise Solutions Services and Prepaid revenue. Mobile postpaid ARPU fell 6% to \$210 (2018/19: \$224).

Group's handset and accessory sales fell by \$1,375 million or 36% to \$2,406 million when compared with \$3,781 million last year, mainly due to weakness in the handset trading business.

As a result, Group total revenue decreased by 17% to \$6,986 million (2018/19: \$8,415 million) mainly due to lower handset revenue.

Roaming revenue, which made up of 12% of Group's service revenue (2018/19: 16%) decreased by 25% due to global travel restrictions as a result of COVID-19.

Hong Kong customer number grew 6% year-on-year to 2.7 million through growth in different segments. Postpaid churn rate improved to an industry low of 0.7% compared to 0.8% last year.

Cost of inventories sold fell by \$1,319 million or 35% to \$2,403 million (2018/19: \$3,723 million), in line with the corresponding decrease in handset and accessory sales.

Staff costs rose slightly by \$8 million or 1% to \$756 million (2018/19: \$748 million).

With the adoption of HKFRS 16 during the year under review, a right-of-use asset (the right to use the leased item) and a lease liability (to pay rentals) are recognised at the date of which the leased asset is available for use by the Group. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Under HKFRS 16, cost of services provided and other operating expenses fell by \$704 million or 34% to \$1,398 million (2018/19: \$2,102 million) as majority of the Group's lease expenses are now recognised in right-of-use assets depreciation and finance costs.

Under pre-HKFRS 16, cost of services provided and other operating expenses increased \$28 million or 1%. Cost of services provided rose to support the corresponding increase in Enterprise Solutions revenue. Other operating expenses also increased due to the preparation and the launch of 5G services during the year.

Under HKFRS 16, depreciation and loss on disposal rose by \$795 million or 117% to \$1,473 million (2018/19: \$678 million) mainly amid the recognition of right-of-use assets depreciation.

Under pre-HKFRS 16, depreciation and loss on disposal increased by \$14 million or 2% mainly due to commencement of depreciation for CAPEX during the previous financial year.

Amortisation of customer acquisition costs rose by \$8 million to \$63 million (2018/19: \$55 million) due to additional short-term incentive programs on customer acquisition.

Spectrum utilisation fee amortisation rose by \$2 million to \$288 million.

Impairment loss of fixed assets and right-of-use assets has been recorded at the Macau segment as a result of impairment assessments on fixed assets and right-of-use assets triggered by COVID-19.

Finance income decreased by \$16 million or 18% to \$70 million (2018/19: \$85 million) mainly due to lower interest income.

Under HKFRS 16, finance costs increased by \$8 million or 7% to \$116 million (2018/19: \$108 million) mainly amid the recognition of accretion expenses on lease liabilities.

Under pre-HKFRS 16, finance costs fell by \$25 million or 23% mainly due to exchange gain from financing activities, decrease in accretion expenses on mobile licence fee liabilities and decrease in interest expenses on bank borrowings.

Income tax expense amounted to \$134 million (2018/19: \$182 million), reflecting an effective tax rate of 28.3% (2018/19: 22.7%). The increase in effective tax rate is mainly due to impairment related tax loss not recognised at the Macau segment. In light of the uncertainty of the tax deductibility of the spectrum utilisation 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 utilisation fees from the Inland Revenue Department.

Group EBITDA increased by \$587 million or 32% to \$2,429 million (2018/19: \$1,842 million). Group operating profit was \$520 million, representing a 37% decrease as compared with last year. Group profit attributable to equity holders fell by \$253 million or 40% to \$379 million (2018/19: \$632 million).

Excluding a one-off cost adjustment in second half of 2018/19, and the non-cash impairment loss of fixed assets and right-of-use assets at Macau, Group profit attributable to equity holders of the Company decreased by \$141 million or 24% to \$440 million (2018/19: \$581 million).

Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the year under review. During the year, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 30 June 2020, the Group recorded share capital of \$112 million, total equity of \$5,013 million and total borrowings of \$1,802 million.

The Group's cash resources remained robust with cash and bank balances of \$2,251 million as at 30 June 2020 (30 June 2019: \$2,129 million).

As at 30 June 2020, the Group had bank and other borrowings of \$1,802 million (30 June 2019: \$2,303 million) of which 91% 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 amortised costs, amounted to \$604 million as at 30 June 2020 (30 June 2019: \$310 million).

The Group had net cash generated from operating activities and interest received of \$2,017 million and \$85 million respectively during the year ended 30 June 2020. The Group's major outflows of funds during the year were payments for leases, payments for purchase of fixed assets, payment for dividends, 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 2021 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 \$73 million as at 30 June 2020 (30 June 2019: \$75 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 9% of the Group's total borrowings at 30 June 2020. The remaining 91% 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 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 30 June 2020, the Group provided performance and financial guarantees of \$3,121 million (30 June 2019: \$2,824 million).

Employees, share award scheme and share option scheme

The Group had 1,898 full-time employees as at 30 June 2020 (30 June 2019: 1,893), with the majority of them based in Hong Kong. Total staff costs were \$756 million for the year ended 30 June 2020 (2018/19: \$748 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 year under review, 1,553,110 shares were granted, 1,550,550 shares were vested and 123,620 shares were lapsed. 3,424,340 shares (30 June 2019: 3,545,400) were outstanding as at 30 June 2020.

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. During the year under review, no share options were granted, cancelled or lapsed. 3,000,000 (30 June 2019: 3,000,000) share options were outstanding as at 30 June 2020.

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 2020 and the consolidated balance sheet as at 30 June 2020 of the Company and its subsidiaries (the “Group”), along with selected explanatory notes.

Consolidated Profit and Loss Account

For the year ended 30 June 2020

	Notes	2020 \$000	2019 \$000
Service revenue and other related service		4,579,953	4,633,700
Handset and accessory sales		2,406,498	3,781,337
Revenues	3	6,986,451	8,415,037
Cost of inventories sold		(2,403,331)	(3,722,748)
Cost of services provided		(379,252)	(376,809)
Staff costs		(756,006)	(748,259)
Other operating expenses	6	(1,018,635)	(1,725,432)
Depreciation, amortisation, impairment and loss on disposal	6	(1,909,401)	(1,018,586)
Operating profit		519,826	823,203
Finance income	4	69,672	85,190
Finance costs	5	(115,700)	(107,733)
Profit before income tax	6	473,798	800,660
Income tax expense	7	(134,181)	(181,864)
Profit after income tax		339,617	618,796
Attributable to			
Equity holders of the Company		378,985	632,247
Non-controlling interests		(39,368)	(13,451)
		339,617	618,796
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	8		
Basic		33.8	56.3
Diluted		33.8	56.3

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2020

	2020	2019
	\$000	\$000
Profit for the year	339,617	618,796
Other comprehensive loss		
Item that may be reclassified subsequently to profit and loss:		
Currency translation differences	(2,086)	(5,365)
Item that will not be reclassified subsequently to profit and loss:		
Fair value loss on financial asset at fair value through other comprehensive income	(209)	(2,086)
Other comprehensive loss for the year	(2,295)	(7,451)
Total comprehensive income for the year	337,322	611,345
Total comprehensive income attributable to Equity holders of the Company	376,690	624,796
Non-controlling interests	(39,368)	(13,451)
	337,322	611,345

Consolidated Balance Sheet

At 30 June 2020

	Notes	2020 \$000	2019 \$000
Non-current assets			
Leasehold land and land use rights		-	10,038
Fixed assets		2,704,484	2,839,714
Customer acquisition costs		77,706	60,288
Contract assets		139,859	103,196
Right-of-use assets		945,204	-
Interest in an associate		3	3
Financial asset at fair value through other comprehensive income		4,351	4,560
Financial assets at amortised cost		-	156,423
Intangible assets		2,872,560	2,764,958
Deposits and prepayments		123,932	121,568
Deferred income tax assets		4,141	4,789
Total non-current assets		6,872,240	6,065,537
Current assets			
Inventories		59,645	79,472
Financial assets at amortised cost		155,560	326,912
Contract assets		185,974	294,867
Trade receivables	10	360,682	442,312
Deposits and prepayments		247,602	167,287
Other receivables		47,588	124,995
Tax reserve certificate		252,362	252,362
Short-term bank deposits		123,316	173,327
Cash and cash equivalents		2,127,409	1,955,987
Total current assets		3,560,138	3,817,521
Current liabilities			
Trade payables	11	451,790	448,469
Other payables and accruals		768,923	812,171
Contract liabilities		280,899	267,970
Lease liabilities		631,004	-
Current income tax liabilities		466,185	508,199
Bank borrowings		130,885	430,393
Customer prepayments and deposits		58,445	146,172
Mobile licence fee liabilities		85,924	60,041
Total current liabilities		2,874,055	2,673,415
Non-current liabilities			
Customer prepayments and deposits		8,952	22,650
Asset retirement obligations		49,938	41,911
Lease liabilities		331,540	-
Bank and other borrowings		1,671,419	1,872,516
Mobile licence fee liabilities		369,769	83,309
Deferred income tax liabilities		113,580	112,608
Total non-current liabilities		2,545,198	2,132,994
Net assets		5,013,125	5,076,649

Consolidated Balance Sheet

At 30 June 2020

	2020	2019
	\$000	\$000
<hr/>		
Capital and reserves		
Share capital	112,227	112,453
Reserves	4,920,780	4,944,710
	<hr/>	<hr/>
Total equity attributable to equity holders of the Company	5,033,007	5,057,163
Non-controlling interests	(19,882)	19,486
	<hr/>	<hr/>
Total equity	5,013,125	5,076,649
	<hr/>	<hr/>

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 2 September 2020.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

(a) Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared on a historical cost basis, except for the financial asset at fair value through other comprehensive income, measured at fair value.

(ii) 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 period commencing 1 July 2019.

Annual Improvements Project HKAS 19 (Amendments)	Annual Improvements 2015-2017 Cycle Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK (IFRIC) 23	Uncertainty over Income Tax Treatments

The Group had to change its accounting policies following the adoption of HKFRS 16. The impact of the adoption of this standard is disclosed in note 2(b)(ii). The other amendments to standards and interpretation did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standards and amendments to standards not yet adopted

Certain new standards and amendments to standards have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Group.

Conceptual Framework for Financial Reporting 2018 HKAS 1 and HKAS 8 (Amendments)	Revised Conceptual Framework for Financial Reporting ¹ Definition of Material ¹
HKFRS 3 (Amendments) HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Definition of a Business ¹ Revised Conceptual Framework for IBOR Reform and its Effects on Financial Reporting – Phase 1 ¹
HKFRS 10 and HKAS 2 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 17	Insurance Contracts ²

¹ Effective for annual periods beginning on or after 1 January 2020.

² Effective for annual periods beginning on or after 1 January 2021.

³ The original effective date of 1 January 2016 has been postponed until further announcement.

2 Summary of significant accounting policies (continued)

(b) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

(i) HKFRS 16, "Leases"

The Group has adopted HKFRS 16 from 1 July 2019 which resulted in changes in accounting policies. In accordance with the transition provisions in HKFRS 16, the Group has adopted the modified retrospective approach for transition to the new lease standard. Under this transition approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 16, i.e. 1 July 2019; and (iii) right-of-use assets will be measured at the amount equal to the lease liability on adoption (adjusted by any prepaid or accrued lease expenses).

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- payments associated with short-term leases for all classes of underlying assets are recognised on a straight-line basis over the lease terms as expenses in the consolidated profit and loss account. Short-term leases are leases with a lease term of 12 months or less.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 *Leases* and HK (IFRIC) 4 *Determining whether an Arrangement contains a Lease*.

2 Summary of significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(ii) Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line items after the application of HKFRS 16:

Consolidated Profit and Loss Account	For the year ended 30 June 2020		
	Reported under current accounting policies \$000	Effect of HKFRS 16 \$000	Balance without the adoption of HKFRS 16 \$000
Service revenue and other related service	4,579,953	(71,272)	4,508,681
Handset and accessory sales	2,406,498	-	2,406,498
Revenues	6,986,451	(71,272)	6,915,179
Cost of inventories sold	(2,403,331)	-	(2,403,331)
Cost of services provided	(379,252)	-	(379,252)
Staff costs	(756,006)	-	(756,006)
Other operating expenses	(1,018,635)	(732,191)	(1,750,826)
Depreciation, amortisation, impairment and loss on disposal	(1,909,401)	790,640	(1,118,761)
Operating profit	519,826	(12,823)	507,003
Finance income	69,672	-	69,672
Finance costs	(115,700)	32,954	(82,746)
Profit before income tax	473,798	20,131	493,929
Income tax expense	(134,181)	(1,783)	(135,964)
Profit after income tax	339,617	18,348	357,965
Attributable to Equity holders of the Company	378,985	15,738	394,723
Non-controlling interests	(39,368)	2,610	(36,758)
	339,617	18,348	357,965

2 Summary of significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(ii) Impact on the consolidated financial statements (continued)

Consolidated Statement of Comprehensive Income	For the year ended 30 June 2020		
	Reported under current accounting policies \$000	Effect of HKFRS 16 \$000	Balance without the adoption of HKFRS 16 \$000
Profit for the year	<u>339,617</u>	<u>18,348</u>	<u>357,965</u>
Other comprehensive loss			
Item that may be reclassified subsequently to profit and loss:			
Currency translation differences	(2,086)	(2)	(2,088)
Item that will not be reclassified subsequently to profit and loss:			
Fair value loss on financial asset at fair value through other comprehensive income	<u>(209)</u>	<u>-</u>	<u>(209)</u>
Other comprehensive loss for the year	<u>(2,295)</u>	<u>(2)</u>	<u>(2,297)</u>
Total comprehensive income for the year	<u><u>337,322</u></u>	<u><u>18,346</u></u>	<u><u>355,668</u></u>
Total comprehensive income attributable to Equity holders of the Company	<u>376,690</u>	<u>15,736</u>	<u>392,426</u>
Non-controlling interests	<u>(39,368)</u>	<u>2,610</u>	<u>(36,758)</u>
	<u><u>337,322</u></u>	<u><u>18,346</u></u>	<u><u>355,668</u></u>

2 **Summary of significant accounting policies** (continued)

(b) Changes in accounting policies (continued)

(ii) Impact on the consolidated financial statements (continued)

Consolidated Balance Sheet	At 30 June 2020		
	Reported under current accounting policies \$000	Effect of HKFRS 16 \$000	Balance without the adoption of HKFRS 16 \$000
Non-current assets			
Leasehold land and land use rights	-	9,097	9,097
Fixed assets	2,704,484	16,719	2,721,203
Customer acquisition costs	77,706	-	77,706
Contract assets	139,859	-	139,859
Right-of-use assets	945,204	(945,204)	-
Interest in an associate	3	-	3
Financial asset at fair value through other comprehensive income	4,351	-	4,351
Intangible assets	2,872,560	-	2,872,560
Deposits and prepayments	123,932	10,962	134,894
Deferred income tax assets	4,141	-	4,141
Total non-current assets	6,872,240	(908,426)	5,963,814
Current assets			
Inventories	59,645	-	59,645
Financial assets at amortised cost	155,560	-	155,560
Contract assets	185,974	-	185,974
Trade receivables	360,682	-	360,682
Deposits and prepayments	247,602	4,196	251,798
Other receivables	47,588	-	47,588
Tax reserve certificate	252,362	-	252,362
Short-term bank deposits	123,316	-	123,316
Cash and cash equivalents	2,127,409	-	2,127,409
Total current assets	3,560,138	4,196	3,564,334
Current liabilities			
Trade payables	451,790	-	451,790
Other payables and accruals	768,923	38,185	807,108
Contract liabilities	280,899	-	280,899
Lease liabilities	631,004	(631,004)	-
Current income tax liabilities	466,185	1,783	467,968
Bank borrowings	130,885	-	130,885
Customer prepayments and deposits	58,445	-	58,445
Mobile licence fee liabilities	85,924	-	85,924
Total current liabilities	2,874,055	(591,036)	2,283,019

2 **Summary of significant accounting policies** (continued)

(b) Changes in accounting policies (continued)

(ii) Impact on the consolidated financial statements (continued)

Consolidated Balance Sheet	At 30 June 2020		
	Reported under current accounting policies \$000	Effect of HKFRS 16 \$000	Balance without the adoption of HKFRS 16 \$000
Non-current liabilities			
Customer prepayments and deposits	8,952	-	8,952
Asset retirement obligations	49,938	-	49,938
Lease liabilities	331,540	(331,540)	-
Bank and other borrowings	1,671,419	-	1,671,419
Mobile licence fee liabilities	369,769	-	369,769
Deferred income tax liabilities	113,580	-	113,580
Total non-current liabilities	2,545,198	(331,540)	2,213,658
Net assets	5,013,125	18,346	5,031,471
Capital and reserves			
Share capital	112,227	-	112,227
Reserves	4,920,780	15,736	4,936,516
Total equity attributable to equity holders of the Company	5,033,007	15,736	5,048,743
Non-controlling interests	(19,882)	2,610	(17,272)
Total equity	5,013,125	18,346	5,031,471

2 **Summary of significant accounting policies** *(continued)*

(b) Changes in accounting policies *(continued)*

(ii) Impact on the consolidated financial statements *(continued)*

Consolidated Cash Flow Statement	For the year ended 30 June 2020		
	Reported under current accounting policies \$000	Effect of HKFRS 16 \$000	Balance without the adoption of HKFRS 16 \$000
Net cash inflow from operating activities	2,016,696	(758,474)	1,258,222
Net cash outflow from investing activities	(181,209)	-	(181,209)
Net cash outflow from financing activities	(1,665,016)	758,474	(906,542)
Net increase in cash and cash equivalents	170,471	-	170,471

2 Summary of significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(ii) Impact on the consolidated financial statements (continued)

Consolidated Balance Sheet	30 June 2019 As previously reported \$000	Effect of HKFRS 16 \$000	1 July 2019 \$000
Non-current assets			
Leasehold land and land use rights	10,038	(10,038)	-
Fixed assets	2,839,714	(10,088)	2,829,626
Customer acquisition costs	60,288	-	60,288
Contract assets	103,196	-	103,196
Right-of-use assets	-	1,027,809	1,027,809
Interest in an associate	3	-	3
Financial asset at fair value through other comprehensive income	4,560	-	4,560
Financial assets at amortised cost	156,423	-	156,423
Intangible assets	2,764,958	-	2,764,958
Deposits and prepayments	121,568	(12,428)	109,140
Deferred income tax assets	4,789	-	4,789
Total non-current assets	6,065,537	995,255	7,060,792
Current assets			
Inventories	79,472	-	79,472
Financial assets at amortised cost	326,912	-	326,912
Contract assets	294,867	-	294,867
Trade receivables	442,312	-	442,312
Deposits and prepayments	167,287	(6,677)	160,610
Other receivables	124,995	-	124,995
Tax reserve certificate	252,362	-	252,362
Short-term bank deposits	173,327	-	173,327
Cash and cash equivalents	1,955,987	-	1,955,987
Total current assets	3,817,521	(6,677)	3,810,844
Current liabilities			
Trade payables	448,469	-	448,469
Other payables and accruals	812,171	(30,101)	782,070
Contract liabilities	267,970	-	267,970
Lease liabilities	-	610,852	610,852
Current income tax liabilities	508,199	-	508,199
Bank borrowings	430,393	-	430,393
Customer prepayments and deposits	146,172	-	146,172
Mobile licence fee liabilities	60,041	-	60,041
Total current liabilities	2,673,415	580,751	3,254,166

2 Summary of significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(ii) Impact on the consolidated financial statements (continued)

Consolidated Balance Sheet	30 June 2019 As previously reported \$000	Effect of HKFRS 16 \$000	1 July 2019 \$000
Non-current liabilities			
Customer prepayments and deposits	22,650	-	22,650
Asset retirement obligations	41,911	-	41,911
Lease liabilities	-	407,827	407,827
Bank and other borrowings	1,872,516	-	1,872,516
Mobile licence fee liabilities	83,309	-	83,309
Deferred income tax liabilities	112,608	-	112,608
Total non-current liabilities	2,132,994	407,827	2,540,821
Net assets	5,076,649	-	5,076,649
Capital and reserves			
Share capital	112,453	-	112,453
Reserves	4,944,710	-	4,944,710
Total equity attributable to equity holders of the Company	5,057,163	-	5,057,163
Non-controlling interests	19,486	-	19,486
Total equity	5,076,649	-	5,076,649

Difference between operating lease commitments disclosed under HKAS 17 and lease liabilities recognised under HKFRS 16

The operating lease commitments disclosed as at 30 June 2019 were \$1,920 million, while the lease liabilities recognised as at 1 July 2019 were \$1,019 million, of which \$611 million were current lease liabilities and \$408 million were non-current lease liabilities.

The differences between the operating lease commitments discounted using the Group's incremental borrowing rate and the total lease liabilities recognised in the consolidated balance sheet at the date of initial application of HKFRS 16 comprised the exclusion of non-lease components and short-term leases recognised on a straight-line basis as expenses, and different treatments on lease contracts in relation to termination options or under renewal process. The weighted average Group's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.28%.

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, amortisation, impairment and loss on disposal (“EBITDA”) and operating profit.

3 Segment reporting (continued)

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

(a) Segment results

	For the year ended 30 June 2020			
	Hong Kong \$000	Macau \$000	Elimination \$000	Consolidated \$000
External revenue	6,760,466	225,985	-	6,986,451
Inter-segment revenue	139,268	4,872	(144,140)	-
Total revenue	<u>6,899,734</u>	<u>230,857</u>	<u>(144,140)</u>	<u>6,986,451</u>
Timing of revenue recognition				
At a point in time	2,404,069	139,997	(137,568)	2,406,498
Over time	4,495,665	90,860	(6,572)	4,579,953
	<u>6,899,734</u>	<u>230,857</u>	<u>(144,140)</u>	<u>6,986,451</u>
EBITDA	2,438,256	(9,029)	-	2,429,227
Depreciation, amortisation, impairment and loss on disposal	(1,780,002)	(129,407)	8	(1,909,401)
Operating profit/(loss)	<u>658,254</u>	<u>(138,436)</u>	<u>8</u>	<u>519,826</u>
Finance income				69,672
Finance costs				(115,700)
Profit before income tax				<u>473,798</u>
Other information				
Additions to fixed assets	636,037	4,715	-	640,752
Additions to intangible assets	395,306	-	-	395,306
Depreciation of fixed assets	645,064	34,219	(7)	679,276
Depreciation of right-of-use assets	777,849	7,938	-	785,787
Amortisation of intangible assets	287,704	-	-	287,704
Amortisation of customer acquisition costs	61,697	1,317	-	63,014
Loss on disposal of fixed assets	7,688	688	(1)	8,375
Impairment loss of trade receivables	7,800	1,031	-	8,831
Impairment loss of fixed assets	-	75,057	-	75,057
Impairment loss of right-of-use assets	-	10,188	-	10,188
Impairment loss/(reversal of impairment loss) of inventories	437	(965)	-	(528)

3 Segment reporting (continued)

(a) Segment results (continued)

	For the year ended 30 June 2019			
	Hong Kong \$000	Macau \$000	Elimination \$000	Consolidated \$000
External revenue	7,966,110	448,927	-	8,415,037
Inter-segment revenue	331,346	5,804	(337,150)	-
Total revenue	8,297,456	454,731	(337,150)	8,415,037
Timing of revenue recognition				
At a point in time	3,765,075	346,037	(329,775)	3,781,337
Over time	4,532,381	108,694	(7,375)	4,633,700
	8,297,456	454,731	(337,150)	8,415,037
EBITDA	1,849,629	(7,840)	-	1,841,789
Depreciation, amortisation and loss on disposal	(980,104)	(38,499)	17	(1,018,586)
Operating profit/(loss)	869,525	(46,339)	17	823,203
Finance income				85,190
Finance costs				(107,733)
Profit before income tax				800,660
Other information				
Additions to fixed assets	545,714	9,734	-	555,448
Depreciation	617,342	37,242	(9)	654,575
Amortisation of leasehold land and land use rights	643	-	-	643
Amortisation of intangible assets	285,470	-	-	285,470
Amortisation of customer acquisition costs	53,675	1,101	-	54,776
Loss on disposal of fixed assets	22,974	156	(8)	23,122
Impairment loss of trade receivables	4,043	815	-	4,858
Impairment loss of inventories	1,205	104	-	1,309

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

3 Segment reporting (continued)

(b) Segment assets/(liabilities)

	At 30 June 2020			Consolidated \$000
	Hong Kong \$000	Macau \$000	Unallocated \$000	
Segment assets	<u>9,903,860</u>	<u>112,101</u>	<u>416,417</u>	<u>10,432,378</u>
Segment liabilities	<u>(4,719,152)</u>	<u>(120,336)</u>	<u>(579,765)</u>	<u>(5,419,253)</u>
	At 30 June 2019			
	Hong Kong \$000	Macau \$000	Unallocated \$000	Consolidated \$000
Segment assets	<u>8,878,622</u>	<u>259,387</u>	<u>745,049</u>	<u>9,883,058</u>
Segment liabilities	<u>(4,059,149)</u>	<u>(126,454)</u>	<u>(620,806)</u>	<u>(4,806,409)</u>

The total of non-current assets other than interest in an associate, financial asset at fair value through other comprehensive income, financial assets at amortised cost and deferred income tax assets located in Hong Kong is \$6,788,631,000 (2019: \$5,718,899,000), and the total of these non-current assets located in Macau is \$75,114,000 (2019: \$180,863,000).

Unallocated assets consist of tax reserve certificate, interest in an associate, financial asset at fair value through other comprehensive income, financial assets at amortised cost and deferred income tax assets.

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

4 Finance income

	2020	2019
	\$000	\$000
Interest income from listed debt securities	14,728	23,157
Interest income from bank deposits	52,106	47,358
Accretion income	2,838	2,510
Others	-	12,165
	<u>69,672</u>	<u>85,190</u>

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.

5 Finance costs

	2020	2019
	\$000	\$000
Interest expense on bank and other borrowings	80,061	84,937
Bank charges for credit card instalment	761	1,466
Accretion expenses		
Mobile licence fee liabilities	13,056	17,668
Asset retirement obligations	1,394	1,661
Lease liabilities	32,954	-
Net exchange (gain)/loss on financing activities	(12,526)	2,001
	<u>115,700</u>	<u>107,733</u>

Accretion expenses represent changes in the mobile licence 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 year.

6 Profit before income tax

Profit before income tax is stated after charging/(crediting) the following:

	2020	2019
	\$000	\$000
Other operating expenses		
- Network costs	574,573	542,705
- Operating lease rentals for land and buildings and transmission sites	-	759,214
- Short-term and low-value leases	37,616	-
- Impairment loss of trade receivables (note 10)	8,831	4,858
- Auditor's remuneration		
- Audit services	2,646	2,638
- Non-audit services	1,524	1,244
- Net exchange gain	(687)	(4,036)
- Others	394,132	418,809
Loss on disposal of fixed assets	8,375	23,122
Depreciation of fixed assets	679,276	654,575
Depreciation of leasehold land and land use right	-	643
Depreciation of right-of-use assets	785,787	-
Amortisation of mobile licence fees	287,704	285,470
Amortisation of customer acquisition costs	63,014	54,776
Impairment loss of fixed assets	75,057	-
Impairment loss of right-of-use assets	10,188	-
(Reversal of impairment loss)/impairment loss of inventories	(528)	1,309

7 Income tax expense

This note provides an analysis of the Group's income tax expense and how the tax expense is affected by non-assessable and non-deductible items.

(a) Income tax expense

	2020	2019
	\$000	\$000
<hr/>		
Current income tax		
Hong Kong profits tax	131,359	192,570
Overseas tax	1,378	1,176
(Over)/under-provision in prior years		
Hong Kong profits tax	(176)	465
Total current income tax expense	132,561	194,211
Deferred income tax		
Decrease in deferred income tax assets	648	753
Increase/(decrease) in deferred income tax liabilities	972	(13,100)
Total deferred income tax expense/(benefit)	1,620	(12,347)
Income tax expense	134,181	181,864
<hr/>		

7 Income tax expense (continued)

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

	2020	2019
	\$000	\$000
Profit before income tax expense	<u>473,798</u>	<u>800,660</u>
Tax at the Hong Kong tax rate of 16.5% (2019: 16.5%)	78,177	132,109
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Interest income	(9,044)	(8,360)
Net exchange (gain)/loss	(2,048)	354
Anti-epidemic fund	(541)	-
Others	5	11
Subtotal	<u>66,549</u>	<u>124,114</u>
Difference in overseas tax rates	6,718	2,034
(Over)/under-provision in prior years	(176)	465
Tax loss not recognised	17,193	9,807
Utilisation of previously unrecognised tax losses	(383)	(119)
Temporary differences not recognised	<u>44,280</u>	<u>45,563</u>
Income tax expense	<u>134,181</u>	<u>181,864</u>

8 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the Company
- by the weighted average number of ordinary shares outstanding during the financial year and excluding shares held for share award scheme.

	2020	2019
	Cents	Cents
Total basic earnings per share attributable to the equity holders of the Company	<u>33.8</u>	<u>56.3</u>

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.

	2020 Cents	2019 Cents
<hr/>		
Total diluted earnings per share attributable to the equity holders of the Company	<u>33.8</u>	<u>56.3</u>

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

	2020 \$000	2019 \$000
<hr/>		
Profit attributable to the equity holders of the Company used in calculating basic earnings per share and diluted earnings per share	<u>378,985</u>	<u>632,247</u>

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

	2020 Number	2019 Number
<hr/>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (less shares held for share award scheme)	1,121,551,764	1,122,123,600
Adjustments for calculation of diluted earnings per share:		
Effect of awarded shares	<u>504,027</u>	<u>559,683</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>1,122,055,791</u>	<u>1,122,683,283</u>

9 Dividends

	2020	2019
	\$000	\$000
Interim dividend, paid, of 14.5 cents (2019: 18 cents) per fully paid share	162,643	201,822
Final dividend, proposed, of 15 cents (2019: 21 cents) per fully paid share	168,341	235,881
	<u>330,984</u>	<u>437,703</u>

At a meeting held on 2 September 2020, the directors proposed a final dividend of 15 cents per fully paid share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2021.

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

For the dividends attributable to the years ended 30 June 2020 and 2019, scrip dividend elections were offered to shareholders except for the final dividend for the year ended 30 June 2020, which will be distributed in cash.

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 (2019: same). An ageing analysis of trade receivables, net of provision, based on invoice date is as follows:

	2020	2019
	\$000	\$000
Current to 30 days	296,730	381,416
31 - 60 days	20,578	43,166
61 - 90 days	5,479	5,524
Over 90 days	37,895	12,206
	<u>360,682</u>	<u>442,312</u>

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

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 \$8,831,000 (2019: \$4,858,000) for the impairment of its trade receivables during the year ended 30 June 2020.

11 Trade payables

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

	2020	2019
	\$000	\$000
Current to 30 days	133,442	151,275
31 - 60 days	118,872	86,820
61 - 90 days	86,998	45,841
Over 90 days	112,478	164,533
	<u>451,790</u>	<u>448,469</u>

REVIEW OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 30 June 2020 have been audited by the independent auditor of the Company, PricewaterhouseCoopers. The unqualified independent auditor's report will be included in the Annual Report.

DIVIDENDS

The Directors recommended the payment of a final dividend for the year ended 30 June 2020 of 15 cents per share (2018/19: 21 cents). The proposed final dividend, together with the interim dividend of 14.5 cents per share paid by the Company during the year (2018/19: 18 cents), makes a total dividend for the year of 29.5 cents per share.

Subject to approval of the shareholders at the forthcoming Annual General Meeting, the proposed final dividend will be paid in cash on or about Friday, 20 November 2020 to shareholders whose names appear on the Register of Members of the Company on Thursday, 12 November 2020.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company is scheduled to be held on Wednesday, 4 November 2020. For determining the entitlement to attend and vote at the Annual General Meeting, the Register of Members of the Company will be closed from Friday, 30 October 2020 to Wednesday, 4 November 2020, 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 Thursday, 29 October 2020.

The record date for entitlement to the proposed final dividend is Thursday, 12 November 2020. For determining the entitlement to the proposed final dividend, the Register of Members of the Company will be closed for one day on Thursday, 12 November 2020 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 Wednesday, 11 November 2020.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 30 June 2020, the Company repurchased 3,141,000 shares of the Company on The Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled prior to 30 June 2020. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid
		Highest	Lowest	
		\$	\$	\$
July 2019	240,000	7.25	7.24	1,740,000
August 2019	507,000	7.25	7.08	3,643,000
September 2019	2,394,000	6.95	6.69	16,139,000
	<u>3,141,000</u>			<u>21,522,000</u>

The Directors considered that the repurchases could lead to an enhancement of the Company's earnings per share. Save as disclosed above, and except that the trustee of the share award scheme of the Company, pursuant to the terms of the rules and trust deed of the scheme, purchased on the Stock Exchange a total of 450,000 shares of the Company at a total consideration of \$2,220,000, at no time during the year ended 30 June 2020 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 of the Group for the year ended 30 June 2020 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 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 2020.

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 2020, the Company has applied the principles and complied with the requirements set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules, except for the following deviations:

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

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Code Provision E.1.2 of the CG Code also provides that the chairman of the board should attend the annual general meeting. Mr. Kwok Ping-luen, Raymond, Non-Executive Director and Chairman of the Board, and Mr. 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 1 November 2019 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 at the time, took the chair of the said meeting pursuant to the Bye-laws of the Company.

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

Full details of the report on corporate governance will be set out in the Company's 2019/20 Annual Report.

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

Hong Kong, 2 September 2020

As at the date of this announcement, the Executive Directors of the Company are Mr. FUNG Yuk-lun, Allen (Deputy Chairman) 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 and Mr. LAM Kwok-fung, Kenny.