HONG KONG BROADBAND NETWORK
香港寬頻

HKBN Ltd.
香港寬頻有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code : 1310

Achieving PURPOSEFUL PROFITS

Interim Report 2019

Achieving
PURPOSEFUL PROFITS

For most businesses, success is essentially defined through profits. At HKBN we believe a more meaningful and overall better approach emerges when profits are achieved in a purposeful way.

From making best-in-class telecommunication services affordable and accessible for the masses, to the way we champion LIFE-work priority in order to catalyse change for Hong Kong's workplace culture, in everything we do and every decision we take, our Core Purpose is omnipresent and clear:

> "Make our Hong Kong a Better Place to Live."

With this powerful call-to-action guiding us, HKBNers share a strong collective alignment of interest, and are extra passionate to deliver products, services and outcomes that are always great for our stakeholders and Hong Kong's communities. And when these occur, we know, compelling business performance and profits will absolutely follow in tandem as evidenced by our results.

Welcome to
HKBN'S
Interim Report 2019

Unless otherwise stated, all monetary figures from this report are in Hong Kong dollars. This report is published in both English and Chinese. Where the English and the Chinese texts conflict, the English text prevails.


LIFE-work
Priority
Innovation
香港寬頻
HONG KONG
BROADBAND NETWORK
HONG
KONG

CONTENTS

Shareholder Letter

William YEUNG
Co-Owner &
Executive Vice-chairman

NiQ LAI
Co-Owner & CEO

We achieved industry leading

19%

year-on-year revenue growth

Dear Fellow HKBN Shareholders,

In the six months to 28 February 2019, we continued to grab industry market share to achieve above industry year-on-year growth of 19% in revenue and 22% in EBITDA, so as to deliver 31% growth in dividend per share.

In our Enterprise Solutions segment, we announced the completion of our acquisition of WTT Holding Corp and its subsidiaries (collectively, "WTT"), which follows our other add-on acquisitions of Y5Zone in 2013, New World Telecom ("NWT") in 2016 and I Consulting Group Limited ("ICG") in 2018. Accelerated organic growth, together with these add-on acquisitions, has completely transformed our company from a once mass-residential focused business to one that is 2/3 majority in the enterprise space. NWT was a company very similar to WTT, only smaller, so timing can't be better, as the lessons gained from our NWT integration positions us very well for the upcoming WTT integration.

Following the completion of our WTT merger, effective on 30 April 2019, our Board of Directors was further strengthened. (Front row, from left) Teck Chien KONG, William YEUNG, Deborah Keiko ORIDA, NiQ LAI; (Back row, from left) Quinn Yee Kwan LAW, Bradley Jay HORWITZ, Stanley CHOW and Zubin Jamshed IRANI.

In our Residential Solutions segment, we continued our transformation to become the leading multi-service provider to households on a single integrated bill, going beyond even traditional quad-play. With the recent launch of our 2Gbps Home Gateway unit, we are set to offer additional services such as home network security, parental control, remote service diagnostics and more. With the recent launch of myTV Gold, in collaboration with TVB, we see an opportunity for creative destruction of the $4 billion legacy Pay-TV industry.

Overall, we estimate that our monthly billing reach now encompasses more than 1 in 3 residential households and 1 in 2 active companies in Hong Kong, yet, our Information and Communication Technology revenue market share is far below this reach. As such, on our merger with WTT, the focus of our integration is clearly on **GROWTH** rather than cost savings. Separately in the fixed-line telecom segment, whilst HKBN is #2 in Residential and WTT is #2 in Enterprise, together we aspire to overtake the legacy incumbent to become #1 over time; in short, **#2 + #2 = #1**.

Sincerely yours,

William Yeung
Co-Owner and
Executive Vice-chairman

NiQ Lai
Co-Owner and
Chief Executive Officer

Key Financial and Operational Summary

Table 1: Financial highlights

	For the six months ended 28 February 2019 (Note)	28 February 2018	Change YoY
Key financials ($'000)			
Revenue	**2,218,591**	1,868,095	+19%
– Residential	**1,223,102**	1,101,411	+11%
– Enterprise	**785,612**	679,200	+16%
– Product	**209,877**	87,484	>100%
Profit for the period	**199,445**	240,935	-17%
Adjusted Net Profit [1,2]	**256,308**	295,489	-13%
EBITDA [1,3]	**723,396**	593,733	+22%
EBITDA margin [1,4]	**32.6%**	31.8%	+0.8pp
Adjusted Free Cash Flow [1,5]	**298,968**	236,906	+26%
Reconciliation of Adjusted Net Profit [1,2]			
Profit for the period	**199,445**	240,935	-17%
Amortisation of intangible assets	**65,452**	64,601	+1%
Deferred tax arising from amortisation of intangible assets	**(10,187)**	(10,047)	+1%
Transaction costs in connection with business combination	**1,598**	–	n/a
Adjusted Net Profit	**256,308**	295,489	-13%
Reconciliation of EBITDA & Adjusted Free Cash Flow [1,3,5]			
Profit for the period	**199,445**	240,935	-17%
Finance costs	**86,978**	27,069	>100%
Interest income	**(1,504)**	(704)	>100%
Income tax	**49,529**	47,146	+5%
Depreciation	**214,040**	214,686	-0%
Amortisation of intangible assets	**65,452**	64,601	+1%
Amortisation of customer acquisition and retention costs	**107,858**	–	n/a
Transaction costs in connection with business combination	**1,598**	–	n/a
EBITDA	**723,396**	593,733	+22%
Capital expenditure*	**(187,805)**	(188,898)	-1%
Net interest paid	**(61,731)**	(50,482)	+22%
Other non-cash items	**(1,053)**	720	>100%
Income tax paid	**(114,137)**	(113,507)	+1%
Customer acquisition and retention costs	**(97,972)**	–	n/a
Changes in working capital	**38,270**	(4,660)	>100%
Adjusted Free Cash Flow	**298,968**	236,906	+26%

Note: *The Group had changed its accounting policies with effect from 1 September 2018 as a result of adopting HKFRS 15, Revenue from Contracts with Customers ("HKFRS 15"). In previous reporting periods, the incremental costs of obtaining telecommunications service contracts were recognised in the consolidated income statement when incurred. Under HKFRS 15, certain incremental costs are required to be capitalised as an asset when incurred, and amortised over expected customer relationship period. Please refer to note 2(c) on pages 61 to 62 for further details.*

* *Excluded $191 million payment for the purchase of properties in Shatin and excluded $296 million paid on acquisition of Cosmo True Limited, a property holding company holding the two network centres currently occupied by the Group, which were completed in September 2018.*

Table 2: Operational highlights

	For the six months ended 28 February 2019	31 August 2018	28 February 2018	Change YoY
Residential business				
Fixed telecommunications network services business				
Residential homes passed ('000)	**2,321**	2,297	2,266	2%
Subscriptions ('000)				
– Broadband	**864**	860	872	-1%
– Voice	**495**	500	515	-4%
Market share [6]				
– Broadband	**35.8%**	36.1%	36.9%	-1.1pp
– Voice	**21.6%**	21.8%	22.2%	-0.6pp
Broadband churn rate [7]	**1.1%**	1.1%	0.9%	+0.2pp
Residential ARPU [8]	**$184**	$177	$173	+6%
Mobile business				
Subscriptions ('000)	**280**	265	222	+26%
– Mobile (without broadband services)	**140**	137	114	+23%
– Mobile (with broadband services)	**140**	128	108	+30%
Mobile ARPU				
– Mobile (without broadband services)[11]	**$144**	$143	$142	+1%
– Mobile (with broadband services)[12]	**$306**	$301	$311	-2%
Residential customers ('000)	**1,015**	1,017	1,003	+1%
Enterprise business				
Commercial building coverage ('000)	**2.4**	2.4	2.4	+0%
Subscriptions ('000)				
– Broadband	**58**	57	55	+5%
– Voice	**144**	140	137	+5%
Market share [6]				
– Broadband	**19.4%**	19.2%	19.1%	+0.3pp
– Voice	**7.9%**	7.7%	7.5%	+0.4pp
Enterprise customers ('000)	**58**	57	56	+4%
Broadband churn rate [9]	**1.3%**	1.2%	1.2%	+0.1pp
Enterprise ARPU [10]	**$1,508**	$1,498	$1,526	-1%
Total full-time permanent Talents	**3,027**	2,981	2,917	+4%

Notes:

(1) *EBITDA, EBITDA margin, Adjusted Free Cash Flow and Adjusted Net Profit are not measures of performance under Hong Kong Financial Reporting Standards ("HKFRSs"). These measures do not represent, and should not be used as substitutes for, net income or cash flows from operations as determined in accordance with HKFRSs. These measures are not necessarily an indication of whether cash flow will be sufficient to fund our cash requirements. In addition, our definitions of these measures may not be comparable to other similarly titled measures used by other companies.*

(2) *Adjusted Net Profit means profit for the period plus amortisation of intangible assets (net of deferred tax credit and direct cost incurred in corresponding period) and other non-recurring item. Other non-recurring item, in the period under review, include transaction costs in connection with business combination.*

(3) *EBITDA means profit for the period plus finance costs, income tax expense, depreciation and amortisation of intangible assets (net of direct cost incurred in corresponding period), amortisation of customer acquisition and retention costs, transaction costs in connection with business combination and less interest income.*

(4) *EBITDA margin means EBITDA divided by revenue.*

(5) *Adjusted Free Cash Flow means EBITDA plus interest received and less capital expenditure, customer acquisition and retention costs, interest paid and tax paid, and adjusted by changes in working capital and other non-cash items. Working capital includes other non-current assets, inventories, trade receivables, other receivables, deposits and prepayments, contract assets, amount due from a joint venture, trade payables, contract liabilities, deposits received and deferred services revenue. Other non-cash items, in the period under review, include amortisation of obligations under granting of rights and Co-Ownership Plan II related non-cash items.*

(6) *Our market share in broadband or voice services in Hong Kong, for residential or enterprise business, is calculated by dividing the number of broadband or voice subscriptions we have at a given point in time by the total number of corresponding broadband or voice subscriptions recorded by the Office of the Communications Authority ("OFCA") at the same point in time. Based on the latest disclosure from OFCA for December 2018 market data, total market figures from January 2016 to November 2016 were revised to reflect the adjustments filed by the Internet Service Provider(s).*

(7) *Calculated by dividing the sum of the monthly broadband churn rate for each month of the given financial period by the number of months in the financial period. Monthly broadband churn rate is calculated by the sum of the number of residential broadband subscription terminations in a month divided by the average number of residential broadband subscriptions during the respective month and multiplying the result by 100%.*

(8) *ARPU means average revenue per user per month. Calculated by dividing the revenue generated in the relevant period from services subscribed by residential broadband subscribers, which include broadband services and any bundled voice, IP-TV and/or other entertainment services (excluding revenue from IDD and mobile services), by the number of average residential broadband subscriptions and further dividing by the number of months in the relevant period. Average residential broadband subscriptions are calculated by dividing the sum of such subscriptions at the beginning of the period and the end of the period by two. Our use and computation of residential ARPU may differ from the industry definition of ARPU due to our tracking of revenue generated from all services subscribed by residential broadband subscribers. We believe this gives us a better tool for observing the performance of our business as we track our residential ARPU on a bundled rather than standalone basis.*

(9) *Calculated by dividing the sum of the monthly broadband churn rate for each month of the given financial period by the number of months in the period. Monthly broadband churn rate is calculated by the sum of the number of enterprise broadband subscription terminations in a month divided by the average number of enterprise broadband subscriptions during the respective month and multiplying the result by 100%.*

(10) *ARPU means average revenue per user per month. Calculated by dividing the revenue generated in the relevant period from the enterprise telecom business (excluding revenue from IDD and mobile services) by the average number of enterprise customers and further dividing by the number of months in the relevant period. Average number of enterprise customers is calculated by dividing the sum of enterprise customers at the beginning of the period and the end of the period by two. This metric may be distorted by the impact of certain particularly large contracts we have with enterprise customers.*

(11) *Mobile (without broadband services) ARPU means average revenue per user per month. Calculated by dividing the revenue generated in the relevant period from services subscribed by residential mobile subscribers (without broadband services), which include all services revenue (excluding IDD and broadband services), by the number of average residential mobile subscriptions (without broadband services) and further dividing by the number of months in the relevant period. Average residential mobile subscriptions (without broadband services) are calculated by dividing the sum of such subscriptions at the beginning of the period and the end of the period by two. Our use and computation of Mobile (without broadband services) ARPU may differ from the industry definition of ARPU due to our tracking of revenue generated from all services subscribed by residential mobile subscribers (without broadband services). We believe this gives us a better tool for observing the performance of our business as we track our residential mobile ARPU on a bundled rather than standalone basis.*

(12) *Mobile (with broadband services) ARPU means average revenue per user per month. Calculated by dividing the revenue generated in the relevant period from services subscribed by residential mobile subscribers (with broadband services), which include all services revenue (excluding IDD services), by the number of average residential mobile subscriptions (with broadband services) and further dividing by the number of months in the relevant period. Average residential mobile subscriptions (with broadband services) are calculated by dividing the sum of such subscriptions at the beginning of the period and the end of the period by two. Our use and computation of Mobile (with broadband services) ARPU may differ from the industry definition of ARPU due to our tracking of revenue generated from all services subscribed by residential mobile subscribers (with broadband services). We believe this gives us a better tool for observing the performance of our business as we track our residential mobile ARPU on a bundled rather than standalone basis.*

Business Review

During the six months ended 28 February 2019 ("1H2019"), the Group continued to deliver exciting growth across all business segments via gaining overall industry revenue market share. Residential and Enterprise service revenue increased by 11% and 16%, respectively. Residential business prospered as the Group successfully extended our value-for-money multi-play services to our strong customer base, which continued to grow beyond the 1 million mark in 1H2019. Enterprise business also sustained strong growth as fuelled by new wins across different customer industry sectors while sustaining stable growth in our SME and enterprise customer base. As a result, Group revenue, EBITDA and Adjusted Free Cash Flow increased year-on-year by 19%, 22% and 26%, respectively, to $2,219 million, $723 million and $299 million.

EBITDA rose by 22% year-on-year mainly due to the exclusion of the amortisation of customer acquisition and retention costs from calculation of EBITDA, after adopting HKFRS 15. EBITDA before the adoption of HKFRS 15 was $626 million, representing a 5% year-on-year growth.

Residential Solutions Review

- Residential revenue grew by 11% year-on-year to $1,223 million in 1H2019, mainly led by the following:

  Our total number of residential customers increased by 1% year-on-year to 1,015,000 as at 28 February 2019. For broadband services, historical full base residential ARPU has increased by 6% year-on-year, from $173/month to $184/month, while broadband subscriptions resumed growth after the churning of price sensitive customers in prior periods. As a result, our market share by broadband subscriptions remained fairly stable at 36% as at 31 December 2018 (based on the latest available OFCA statistics).

  Mobile Services was one of the key revenue growth drivers in 1H2019, where the number of activated subscribers grew by 26% year-on-year to 280,000 and mobile ARPU (without broadband services) increased by 1% year-on-year to $144/month in 1H2019. Mobile revenue and subscriber numbers continued to grow as we progressively extended our services to our 1 million residential customer base via compelling marketing promotions and new service plans with higher data usage and Greater Bay area data services.

  Over-The-Top ("OTT") services reached a new height in 1H2019, as the majority of our residential broadband customers have already ordered at least one OTT set-top box to meet their entertainment needs. Our successful penetration into the OTT market has fostered the growth in subscription revenue as we continued to offer new and exciting content for customers at competitive prices.

  Our value-for-money bundled services continue to be our strongest proposition, which is to deliver unprecedented household savings and service convenience to disrupt the legacy broadband, fixed-voice, content and mobile standalone segments. Our collective broadband and mobile billing relationships shall provide a strong foundation to upsell our multi-play offerings to customers and drive further revenue growth.

Enterprises Solutions Review

- Enterprise revenue increased by 16% year-on-year to $786 million, which is contributed by the full period contribution of ICG and the upselling of integrated solutions services to our growing customer base. During the period, we achieved net additions of 2,000 year-on-year for a total of 58,000 enterprise customers while our enterprise ARPU remained fairly stable at $1,508/month. The fully integrated business increased both our presence and capabilities in the enterprise market, which has enabled us to provide a broader range of products and services at competitive value to different customer segments. This has driven the continuous expansion of our customer base as well as help secure more and more new projects of larger contract sums in 1H2019. Our market share by broadband subscriptions remained 19% as at 31 December 2018 (based on the latest available OFCA statistics).

- Product revenue increased by 140% year-on-year to $210 million, mainly represented by the sale of smartphone products that complemented our mobile business.

Network costs and costs of sales increased by 53% year-on-year to $834 million mainly due to the increase in cost of inventories for the sale of mobile handsets by 142% year-on-year to $199 million and the increase in network costs and cost of services by 37% year-on-year to $635 million. The increase in network cost and cost of services was mainly due to the significant increase in the cost paid to our mobile partners, which was in line with the growth of mobile business.

Other operating expenses comprised mainly of advertising and marketing expenses, Talent costs, depreciation, amortisation and office expenses. The slight increase of 4% year-on-year from $1,016 million to $1,060 million was mainly due to the increase in Talent cost by 12% year-on-year to $264 million as the result of the increase in headcount by 4% year-on-year to 3,027 due to full period contribution by ICG, inflationary salary increment and our policy to pay top dollar for top performers. Advertising and marketing expenses, including amortisation of customer acquisition and retention costs, increased by 3% year-on-year to $298 million, mainly due to the increase in sales efforts to support our progressive expansion in mobile business and our multi-play price strategy.

Finance costs increased by 221% year-on-year from $27 million to $87 million mainly due to the fair value loss on the interest-rate swap of $20 million recognised in 1H2019 versus a $40 million gain in the six months ended 28 February 2018 ("1H2018"). Excluding the fair value change, interest expense remained $67 million as the result of the increase in bank borrowing of $580 million and the higher HIBOR interest rate in 1H2019 offset by the lower margin due to refinancing of existing bank loan.

Income tax increased by 5% from $47 million to $50 million. The expected credit losses on trade receivables recognised as the result of adopting HKFRS 9 and finance costs were not tax deductible. Income tax as a percentage of profit before taxation, after adjusting for these finance costs and non-deductible expenses (the "effective tax rate") was approximately 14% and 15%, respectively, for the 1H2019 and 1H2018. The effective tax rate was lower than the statutory income tax rate due to the utilisation of tax losses that were not previously recognised as deferred tax assets.

As the result of the aforementioned factors, profit attributable to equity shareholders decreased to $199 million.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets, and non-recurring items, decreased by 13% year-on-year to $256 million.

Adjusted Free Cash Flow rose by 26% year-on-year to $299 million mainly due to an increase in EBITDA, lowered capital expenditure and inflow from working capital. The adoption of HKFRS 15 did not have any impact on Adjusted Free Cash Flow. The positive impact on EBITDA was $108 million due to amortisation of customer acquisition and retention costs, which is substantially added back for the calculation of Adjusted Free Cash Flow.

Outlook

The merger of the Group with WTT Holding Corp shall bring the combined Group's business to new heights, in terms of extended customer reach, wider service offerings and enhanced market competition in the enterprise space. HKBN had proven success in integrating several add-on acquisitions similar in nature to WTT since listing in 2015. As both businesses are highly complementary, we are confident that the combined organisation shall deliver both operational and financial synergies to shareholders.

Market competition continues to be intense for our existing business. We shall focus on harvesting our substantially invested network and our monthly billing relationship by upselling more services through OTT and mobile partnerships, as well as driving sustainable growth in revenue, EBITDA and Adjusted Free Cash Flow through the following initiatives:

- To expand our quad-play bundle plans to multi-play to drive APRU and subscription growth and disrupt the legacy broadband, fixed-voice, multimedia content and mobile standalone services;
- Further penetrate the enterprise market through our broad range of business-imperative services and more network capacity;
- Continue to cultivate our Talent-oriented Co-Ownership culture that aligns risks and rewards with shareholders by extending the invitation to a broader Talent base at HKBN as well as WTT Talents in the revamped Co-Ownership Plan III; and

- Seamlessly execute the integration of WTT, in order to maximise the potential synergy benefits and to better serve the business community.

Liquidity and Capital Resources

As at 28 February 2019, the Group had total cash and cash equivalents of $421 million (31 August 2018: $373 million) and gross debt (principal amount of outstanding borrowing) of $4,480 million (31 August 2018: $3,900 million), which led to a net debt position of $4,059 million (31 August 2018: $3,527 million).

- The Group's gearing ratio, which was expressed as a ratio of the gross debt over total equity, was 3.43x as at 28 February 2019 (31 August 2018: 3.76x).

- The Group's net debt to EBITDA ratio, which was expressed as a ratio of the gross debt net of cash and cash equivalents over EBITDA, was 3.10x as at 28 February 2019 (31 August 2018: 2.99x). The net debt to EBITDA ratio as at 28 February 2019 should be 3.35x if customer acquisition and retention costs are expensed as incurred, prior to the adoption of HKFRS 15.

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 28 February 2019 and 31 August 2018. As at 28 February 2019, the Group had an undrawn revolving credit facility of $200 million (31 August 2018: $200 million).

Under the liquidity and capital resources condition as at 28 February 2019, the Group can fund its capital expenditures and working capital requirements for the period with internal resources and the available banking facilities.

Hedging

The Group's policy is to partially hedge the interest rate risk arising from the variable interest rates of the debt instruments and facilities by entering into interest-rate swaps. The Chief Executive Officer and Chief Financial Officer are primarily responsible for overseeing the hedging activities. Under their guidance, the Group's finance team is responsible for planning, executing and monitoring the hedging activities. The Group would not enter into hedging arrangements for speculative purposes.

The Group entered into an interest-rate swap arrangement in the principal amount of $2,635 million with an international financial institution for a term of 1.8 years from 31 August 2018 to 29 May 2020. Benefiting from the hedging arrangement, the Group substantially fixed the HIBOR interest rate exposure at 2.26% per annum.

This interest-rate swap arrangement is recognised initially at fair value and remeasured at the end of each reporting period. The interest-rate swap does not qualify for hedge accounting under HKFRS 9, *Financial instruments*, and therefore, it is accounted for as held for trading and measured at fair value through profit or loss.

Charge on Group Assets

As at 28 February 2019 and 31 August 2018, no assets of the Group were pledged to secure its loans and banking facilities.

Contingent Liabilities

As at 28 February 2019, the Group had total contingent liabilities of $7 million (31 August 2018: $7 million) in respect of bank guarantees provided to suppliers and utility vendors in lieu of payment of utility deposits.

Exchange Rates

All of the Group's monetary assets and liabilities are primarily denominated in either Hong Kong dollars ("HKD") or United States dollars ("USD"). Given the exchange rate of the HKD to the USD has remained close to the current pegged rate of HKD7.80 = USD1.00 since 1983, management does not expect significant foreign exchange gains or losses between the two currencies.

The Group is also exposed to a certain amount of foreign exchange risk based on fluctuations between the HKD and the Renminbi arising from its operations. In order to limit this foreign currency risk exposure, the Group ensures that the net exposure is kept to an acceptable level of buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Significant Investments, Acquisitions and Disposals

On 17 August 2018, HKBN Group Limited ("HKBNGL"), an indirect wholly-owned subsidiary of the Company, entered into a binding memorandum of understanding with Hong Kong Television Network Limited ("HKTNL"), pursuant to which HKBNGL proposed to acquire, and HKTNL proposed to sell or procured the sale of, the entire issued share capital of Cosmo True Limited (宇正有限公司) ("CTL") at a consideration of approximately $329,000,000 (the "CTL Acquisition"). On 26 September 2018, HKBNGL and HKTNL entered into a sale and purchase agreement in relation to CTL Acquisition (the "SPA"). Completion took place upon the signing of the SPA on 26 September 2018. Following the completion of the CTL Acquisition, CTL has become an indirect wholly-owned subsidiary of the Company. Please refer to the announcements of the Company dated 17 August 2018 and 26 September 2018 for further details.

On 7 August 2018, the Company, its direct wholly-owned subsidiary Metropolitan Light Company Limited ("MLCL"), TPG Wireman, L.P. ("TPG Wireman") and Twin Holding Ltd ("Twin Holding") entered into a merger agreement (the "Merger Agreement"), pursuant to which, among other things, MLCL conditionally agreed to purchase, and TPG Wireman and Twin Holding conditionally agreed to sell, the entire issued share capital in WTT Holding Corp ("WTT Holding") for an aggregate consideration of $5,489,756,860, of which: (i) $3,548,819,204 would be satisfied by the allotment and issuance of consideration shares; and (ii) $1,940,937,656 would be satisfied by issuance of vendor loan notes (the "Vendor Loan Notes") (the "WTT Merger"). On 30 April 2019, the condition precedents as set out in the Merger Agreement have been satisfied and completion of the WTT Merger took place on 30 April 2019. Following the completion of the WTT Merger, (i) 152,966,345 Consideration Shares have been duly allotted and issued by the Company to each of TPG Wireman and Twin Holding; (ii) the Vendor Loan Notes with an aggregate principal amount of $1,940,937,656 have been issued, with a principal amount of $970,468,828 being issued to each of TPG Wireman and Twin Holding; and (iii) WTT Holding and its subsidiaries have become direct wholly-owned subsidiaries of MLCL and indirect wholly-owned subsidiaries of the Company. Please refer to the announcements of the Company dated 7 August 2018, 18 January 2019, 17 April 2019, 30 April 2019, and the circular of the Company dated 26 October 2018 for further details.

Save as disclosed, the Group did not make any significant investments, acquisitions or disposals in relation to its subsidiaries and associated companies during 1H2019.

Talent Remuneration

As at 28 February 2019, the Group had 3,027 permanent full-time Talents (31 August 2018: 2,981 Talents). The Group provides remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and dependent on both the Group's and individual performances. The Group also provides comprehensive medical insurance coverage, competitive retirement benefits schemes, and Talent training programmes.

To attract, retain and motivate skilled and experienced Talents, the Company adopted a Co-Ownership Plan II on 21 February 2015. Co-Ownership is a powerful expression of the commitment and belief our Talents have in the Group. Unlike the more traditional approach of giving stock options to a very limited group of senior executives, the Company's Co-Ownership is open to all supervisors and above level Talents, spanning the Group's operations across Hong Kong, Guangzhou and Shenzhen. Under the Co-Ownership Plan II, we now have over 340 Co-Owners, representing a majority of our supervisor-and-above-level Talents which constitutes over 11.20% of our entire workforce. On their own volition, they invested their personal savings in the amount of between two and twelve months of salary to acquire the Company's shares at full market price. The shares are then matched with free shares at a certain ratio vested over three years.

To provide additional means for the Company to incentivise its Talents and to recognise the continual support of the relevant employees to the Group and their effort in promoting the Group's long-term growth and development, the Company adopted a Co-Ownership Plan III on 15 December 2017. For details of the Co-Ownership Plan III of the Company, please refer to the announcement of the Company dated 2 November 2017 and the circular of the Company dated 16 November 2017. As at 28 February 2019, there were approximately 680 Talents who are eligible to participate in Co-Ownership Plan III, representing approximately 22% of the total number of existing employees of the Group. No invitations or grants under the Co-Ownership Plan III have been made as the Board has suspended the operation of the Co-Ownership Plan III due to the WTT Merger. Please refer to the announcement of the Company dated 7 August 2018 for details. Further development of Co-Ownership Plan III will be announced later.

Please refer to "Share Incentive Scheme" on page 79 for a summary of the Co-Ownership Plan II.

In everything we do – from the way we operate to the decisions we take – our ultimate purpose and ambition seeks to

"Make our Hong Kong a Better Place to Live".

Being a purpose-driven company means we also measure success in ways beyond financial-only performance. We believe our business is best served by creating positive social impact, via addressing the priority goals in five key stakeholder areas.

We believe by shaking up the legacy market norms and delivering to customers innovation as well as exceptional products and services with high-value satisfying benefits, we will garner the results we want — expanded growth and improved profitability.

As an employer in Hong Kong and mainland China, we take great pride — and lead by example — in how HKBN Talents are engaged as priority number one. This is manifest in a myriad of initiatives designed to uphold LIFE-work Priority, life-long learning and development and more.

The relationships which exist between HKBN and our business partners and suppliers are built to last via a prosperity-conducive foundation of mutual trust, respect, fairness and rigorous compliance of laws and regulations. Our goal is to leverage strong partnerships as a driver of win-win outcomes.

In terms of our role in the community, we believe HKBN has a responsibility to uplift and empower, especially for the underprivileged. Our approach, which we term Corporate Social Investment ("CSI"), champions sustainable empowerment and collaboration over philanthropy so that the people we help can become gainfully self-sufficient.

As a technology-centric company, we're striving to be smarter for the good of our planet. To this end, we're always looking to use the latest eco-friendly solutions and ideas to enhance operational efficiency in areas like energy consumption, waste management, recycling, carbon emissions and more.

Customers

In every aspect of our business, we understand that success begins with customers. To this end, we work tirelessly not only to inject innovation and satisfying appeal across our products and services, but we also strive for the highest standards in factors like reliability, transparency, quality and safety.

Service Reliability

Reliability of our services is a crucial attribute that helps reinforce customer trust in our service.

Outstanding Network Performance

To ensure that our fibre network service is outstanding and reliable, our Network Operation Centre ("NOC") works around-the-clock to monitor and oversee our performance. During the interim period, our network availability for residential customers was at 99.9929%, exceeding our target of 99.99%. For our Enterprise Solutions customers, network availability was at 99.9983%, beating our target of 99.995%.

Standard procedures and escalation guidelines are in place to ensure rigorous monitoring of network performance across different service platforms.

As Hong Kong's first to deploy 100Mbps, and one of the world's first to mass deploy 1,000Mbps fibre broadband services, we know the importance of staying ahead of the tech curve. During the interim period, in order to cater to the rising connectivity needs of customers, we continued expansion of our core network, as well as the capacity of our access layers. In addition, network resiliency was further strengthened by obsoleting end-of-life hardware and software.

In addition, through leveraging the resiliency advantages offered by cloud solutions, 100% of our core platforms are now cloud-based to deliver extremely high service availability and reliability. Disaster drills are conducted regularly to ensure speedy service recovery in case of contingency.

99.9983%

network availability for enterprise customers

Added

23,000

homes to our fibre coverage

To expand our fibre network reach, we installed fibre cables along the newly constructed Hong Kong-Zhuhai-Macao Bridge.

Network Technology Talents work around the clock to monitor and ensure stability of our network and data centre performance.

Expanded Network Coverage

To increase the availability of our services to more households and companies, we continued to expand our fibre network coverage. Throughout the interim period, our fibre coverage was extended to more than 23,000 additional homes, 42% of which were in rural areas, including villages not previously served by high-speed fibre broadband service. Likewise, 43 commercial buildings were added to the coverage of our fibre network, extending our reach to more Enterprise Solutions customers. As at the end of February 2019, our fibre network reached over 2.3 million homes and over 2,400 commercial buildings in Hong Kong.

Reliable Partners, Reliable Service

For the interest of our customers, we work closely with business partners at different operational levels to maintain reliability of our mobile and OTT services. During the reporting period, no major service interruptions occurred.

Talents such as Irene Wong, Project Assistant — IT, analyse user feedback to refine and improve our product offerings.

Securing Customer Satisfaction

To understand the user experience in terms of reliability, we continued with efforts to benchmark customer feedback via online satisfaction surveys conducted on a quarterly basis. During the reporting period, we engaged new customers of our mobile and broadband services with surveys gauging their satisfaction level. As a result, the overall evaluation score achieved by HKBN mobile services was at 4.5 out of 6, whilst HKBN broadband services was at 4.6 out of 6 respectively for the interim period.

In terms of feedback from on-site customer interactions, our team of residential broadband technicians scored a rating of 5.57 out of 6 for the interim period. Similarly, our Enterprise Solutions broadband technicians earned a rating of 5.6 out of 6 during the same period.

As a committed provider of many different services, we put extra emphasis on resolving issues or problems that customers may encounter. For our part, we make it a rule that customer complaints, once received, are swiftly acknowledged within one business day. During the reporting period, 90% of all complaints received were addressed with a proposed resolution provided within three business days.

Making Service Affordable

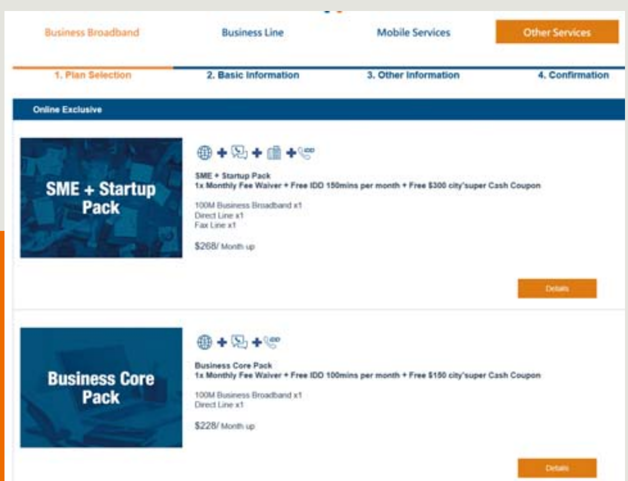
In line with our Core Purpose to "Make our Hong Kong a Better Place to Live", we believe accessibility to world-class telecommunications is essential in a strong, prosperous society. With that goal in mind, we continue to set the price ceiling for our basic, 100Mbps residential fibre broadband service at 1% of Hong Kong's median household income (which was at $28,200 for 2018 Q4).

Certified Professional Engineers (from left to right) Ming-ho Wong, Nicky Chan, Jacky Lo and Billy Tsang take pride in serving customers with excellence.

Fair and Transparent Sales & Marketing

Our long-term success with customers is built on a relationship of trust and integrity. For this crucial reason, our objective is to ensure that consumers can make well informed decisions about our products and services, and all our marketing messages are compliant with the prevalent laws in Hong Kong.

To enhance business customers' understanding of our pricing and information pertinent to services, continuous improvements were made during the reporting period. These include the introduction of an all-new online acquisition and retention platform, as well as upgrade of our e-newsletters and communications with customers.



Enterprise customers can now choose their Enterprise Solutions plans via our newly launched online platform.

Dual

14-day

cooling off periods are made available to HKBN residential customers

On a daily basis, our Talents (from left to right) Jason Ip, Leo Chung, Lam Wong and Cat Wong are eager to provide information truthfully and honestly to customers interested in our services.

Selling in a Responsible Way

At HKBN, we put heavy emphasis on training and service quality for all Talents involved with the sale of our products and services.

Our sales-related Talents are obligated to undergo comprehensive training covering product/service knowledge, sales techniques, company policies and ethics. Crucially, Talents must pass an assessment before being permitted to interact with our customers.

For existing sales Talents, on-the-job training and refresher trainings are regularly mandated to ensure they are always adequately prepared. To ensure that accurate information is relayed to customers, our telesales Talents operate with the support of pre-approved scripts and detailed procedural guidelines.

Performance of our frontline sales teams is carefully monitored by team leaders as well as the Quality Management team. Monthly mystery shopper exercises are conducted to ensure that our retail sales Talents operate according to our standards.

For added consumer protection, customers are entitled to HKBN's dual 14-day cooling off periods. Customers may cancel their residential fixed and mobile services within 14 days after registration or within 14 days after installation (for fixed services) or service activation (for mobile services) at no additional cost.

To ensure our Enterprise Solutions sales Talents can always relay accurate information to our customers, a new, centralised intranet was set up during the interim period to conveniently provide our Enterprise Solutions Talents with up-to-date information on our products and services.

Customer Privacy

We take data privacy protection as a top priority, and we are committed to upholding stringent policies and practices governing how we collect, use and manage customer information. Further to the incident of unauthorised access to an inactive database, which occurred in April 2018, we have introduced a series of strong, decisive measures to implement tightened data collection and retention practices, as well as enhancements in network security measures, based on recommendations from external security advisors. The Privacy Commissioner for Personal Data published an investigation report on the incident and issued an enforcement notice on 21 February 2019, wherein HKBN was required to take certain actions within 90 days.

Since the end of FY18, we have adopted industry-leading practices in customer data collection and retention, including the deletion of the personal data of customers whose accounts have been closed and cleared for six months; we also no longer store full credit card numbers; and we completely removed from our database 6 digits (out of the full 16 digits) for credit card numbers belonging to our existing customers. Our customers' Hong Kong Identification Card numbers are now only partially visible via our frontline system.

On top of implementing network security measures referencing global best practices, we have conducted full-scope security audits to our network and systems, as well as completed the review of our IT and network security policies and procedures. Vigorous plans are also in place for security hack drills and regular company-wide cyber security training.

Innovation for Customers

As a leading telecom services provider, we know our ability to innovate ensures that customers can rely on us for best-in-class products and services. As such, we put extra effort in mobilising our Talents to embrace innovation and the latest technologies.

Pledge to Become Hong Kong's Most Cloud Proficient Telecom Service Provider

Understanding that the cloud is critical to the future competitiveness for businesses across all industries, we took a bold step in November 2018 with an aim to establish ourselves as Hong Kong's most cloud-proficient telecom service provider (with the most professionally-certified cloud experts). During the reporting period, over 1,300 HKBN Talents completed their training on cloud computing fundamentals at Cloud Academy. Importantly, more than 300 Talents will go for their globally-recognised cloud certifications from Microsoft Azure and/or Amazon Web Services within 2019.

From different levels of our operation, HKBN Talents are now in a great position to help and advise customers for cloud transformation — converting expert knowledge into better services for our customers!

Our management team ceremoniously signed their names to back our pledge to cloud-enable over one-third of our total Talent base.

Personalised Digital Experiences for Customers

By leveraging the power of the cloud across our digital platforms, we are able to quickly deploy different marketing programmes to meet customer needs. We're creating much more user-friendly and personalised experiences when customers, for example, seek information from us. Customers can enjoy the same digital experience on mobile devices and computers, as well as the same customer experience no matter if they engage HKBN via online or offline channels. The latest version of MyHKBN apps will support fingerprint and face ID log-in to allow easier and more secure identity authentication.

All-new 200Mbps Service for Enterprise Customers

To provide enterprise customers with more options that can address their specific business broadband needs, we introduced an all-new 200Mbps service. As at the end of Feb 2019, we have over 13,000 lines of 200Mbps broadband service in use.

Improving Mobile Services with Bay Area Plan

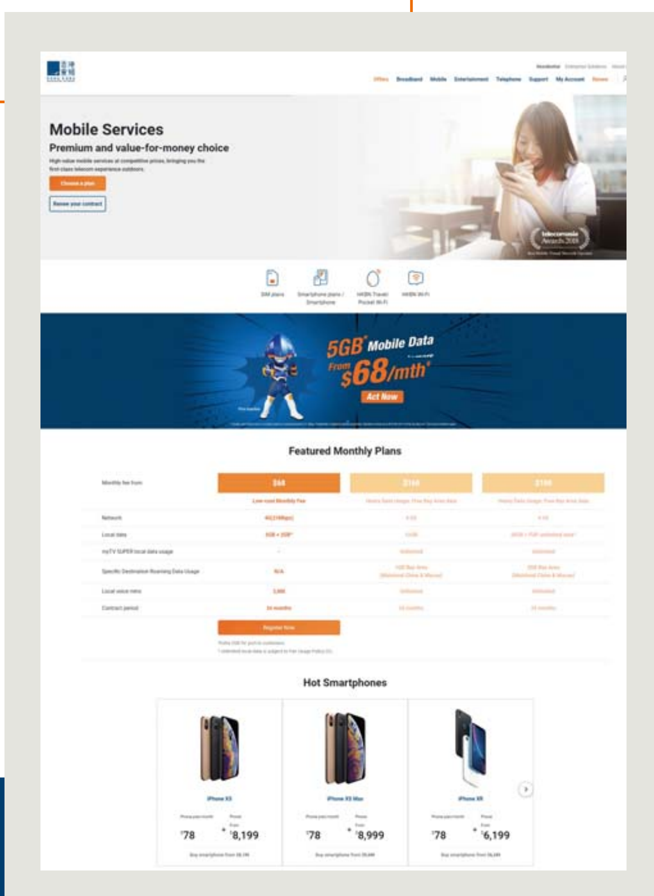
Knowing that an ever-growing number of Hong Kongers are travelling to Macau and mainland China, for both business and leisure, we introduced a 4.5G full speed data plan for $190/month (number port-in customers can enjoy an $18 admin fee waiver). The plan features more than 20GB of 4.5G full speed monthly local Hong Kong data with unlimited data for thereafter usage (under Fair Usage Policies), and 2GB of China's Bay Area monthly data. In short, our plan delivers on exactly what customers desire: endless local data and plenty of free data to stay connected when in mainland China and Macau.

For Hong Kongers who travel to Macau and mainland China, for both business and leisure, we introduced plans featuring 20GB local and 2GB of China's Bay Area roaming data at only $190/mth.

Customer Accessibility to Information and Assistance

Customers can easily reach us to obtain information or service assistance via a multitude of online and offline channels.

Whether online or offline, customers can easily subscribe to HKBN's diverse range of services and get access to information like pricing, plan details, terms and conditions, and more, in a consistent and transparent manner across all channels.



Residential customers can access our service plan details and complete registration via different online or offline channels.

Talents like Sunny Ho, Customer Relations Executive, exemplify the professionalism and dedication we provide to customers who call our customer service hotline.

Residential Solutions Customer Service:

Through our customer service hotline, online platforms, e-mail and other channels, customers can get help fast and easy. In terms of performance during the reporting period, our enquiry hotline normally answered 94% of calls made by customers during the operating hours from 9am to 11pm. Our Online Customer Service Chat normally answered 86% of chat enquiries made during operating hours from 9am to 9pm.

For emails, 99% of enquiries made during operating hours from 9am to 9pm were normally replied within four hours.

Gauging customer sentiment is important to us. Upon completing enquiries made to our customer service hotline, customers are asked to rate their satisfaction based on a scale from 1 to 6. During the reporting period, we scored an average of 5.7 out of 6.

Enterprise Solutions Customer Service:

For the benefit of Enterprise Solutions customers, we introduced a number of new enhancements to make life easier. These include all-new electronic registration forms for fixed voice and mobile services, as well as new payment channel options for WeChat Pay and instant credit card payment via the Enterprise Solutions MyAccount platform.

Like our residential operations, Enterprise Solutions also relies on customer service feedback as an important way to improve. During the reporting period, we conducted customer surveys on product and service satisfaction, wherein the total average score was 87 out of 100.

87

total average score (out of 100) obtained in our enterprise customer satisfaction surveys

Customer Health & Product Safety

HKBN is committed to providing products and services which comply fully with the legal and regulatory requirements for consumer safety.

Early involvement with our suppliers throughout the product design stage helps ensure our requirements for quality, compliance with international safety regulations and standards, as well as sustainability metrics, are met.

For our OTT content, we ensure that options for parental controls are available so that guardians may safeguard children from age-restricted content.

Likewise, two key features embedded in our new Home Gateway service are enterprise-level network security protection, and the highly comprehensive Parental Control functionality. Besides 2Gbps broadband, and built-in Wi-Fi and telephone service, Home Gateway provides an embedded advanced home network security solution which safeguards by detecting, analysing, and protecting against external attacks and malicious network activity, whilst blocking unsafe websites and files. Via Parental Control, Home Gateway gives parents the tools to effectively block access to websites, set online time limits, and much more. And when parents are away from home, they stay informed of a child's Internet activity through automated notifications and other mobile app reporting features. For more details about the Home Gateway service, please see pages 44-45 in this report.

During the interim period, no substantiated non-compliance court cases relating to product health and safety occurred.

Certified Broadband Engineers

As at the end of the reporting period, 100% of HKBN broadband technicians have earned a Construction Industry Safety Training Certificate. Granted by the HKSAR Occupational Safety & Health Council, this certification course provides the relevant health and safety training for construction industry professionals.

Talents

Our team of HKBN management Talents are completely united in our goal to achieve purposeful profits.

Whilst financial remuneration is important, HKBN Talents benefit from a broad range of inducements that are part and parcel to our company.

Through the embrace of our Core Purpose to "Make our Hong Kong a Better Place to Live", Talents know that they are working to realise benefits for Hong Kong society. We also uphold Talents as priority number one — substantiated by the way we treat our Talents with respect, offer exceptional work flexibility and employment benefits, as well as provide them with copious opportunities to develop professionally. By championing objectivity in our pay structure, Talents know all the contributions they make will be fairly rewarded. Similarly, our Co-Ownership Plans give Talents a unique opportunity to prosper as part owners of the company they serve.

All combined, these ensure HKBN Talents come to work thoroughly engaged with a sense of pride and passion to perform. This holistic total rewards dynamic is key in our strategy to attract, cultivate, incentivise and retain the best Talents for success.

Fairly Rewarded

In terms of financial compensation, we emphasise pay-for-performance. While outstanding performers are rewarded with better year-end bonuses, salary increments and job promotion opportunities, we also enforce a bottom 5% exit rule wherein poorly performing Talents are required to undergo our Performance Improvement Plan ("PIP"). When those individuals show no signs of improvement, they'll be asked to leave.

Following a good year of FY18 financial performance, monetary bonuses were awarded and disbursed based on each individual Talent's performance and contributions. An additional "minor" bonus was also allocated for managers to make up for the sacrifice of reduced year-end bonus they bore in a prior "bad" year; we want to reward them when the Company over-achieves.

For annual salary review effective 1 January 2019, an average 4.5% increment was awarded for Hong Kong Talents, while the increment for our Talents in mainland China averaged about 7.1%.

In addition, the following are some key highlights which transpired during the reporting period:

- Under our management performance rating system, which assesses each individual Talent's performance based on a criterion of company goals, core values and leadership attributes, a total of 47 Talents from Hong Kong, Guangzhou and Shenzhen earned A+ ratings

- True to our bottom 5% exit rule, we invited Talents to undergo the Performance Improvement Plan after their FY18 performance review. PIP is not the end game, as today's failure can be a springboard for tomorrow's success. Throughout the PIP process, we work closely with departmental supervisors to help and encourage Talents to achieve success

- With effect starting 1 January 2019, 319 Talents earned job promotions for their contributions. These Talents also shared the factors behind their success in a Promotion Journal, which would serve as a learning guide to help Talents learn, excel and succeed in their roles

- Whilst assessment results are important, we also want to highlight the decision-making behind endorsing or rejecting promotions for managers and above level Talents. This year, our Talent Management team arranged for all rejected Talents a post-assessment meeting with their assessors to understand why their promotions were unsuccessful. Simultaneously, we also collected the assessment feedback as a resource for all supervisor-level Talents to understand the qualities we seek

4.5%

and

7.1%

average salary increments for Hong Kong and mainland China Talents

LIFE-work Priority

Mindful that Talents play a decisive role in our overall success, we strive to ensure they can work and enjoy happy, fulfilled lives. While many are still grappling with work-life balance, we uphold LIFE-work Priority. As a principle, we maintain that personal well-being and family should always come first — when Talents can spend more quality time with family and friends, they will come to work more motivated to perform.

Office is not only a place of work to our Talents, but also a place for parent-child activities.

Talent Child Sponsorship for Guangzhou and Shenzhen Talents

Talent Child Sponsorship is an all-new scheme designed for Talents who have children aged three to six. Understanding the difficulties of balancing work with raising a child, this scheme, launched on 1 September 2018, provides our full-time Talents in mainland China with a monetary sponsorship (easing their burden on expenses like childcare) of up to RMB3,000. During the reporting period, a total of 154 Talents benefited from the scheme.

Hong Kong Marathon 2019

As a company which encourages our workforce to strive for more diverse challenges, we continued to sponsor — like in previous years — our Talents to run in the Standard Chartered Hong Kong Marathon. In the hopes of inspiring our Talents to achieve even faster 'personal-best' results, as well as pursue a healthy well-being, we invited Chi-kin Tsui, a renowned Hong Kong Marathon runner, for a session sharing his own breakthrough experiences and tips for running in a marathon.

To help our Talents better prepare for the Hong Kong Marathon 2019, we invited champion runner Chi-kin Tsui (6th from left, front row) to share his experiences.

Philip Leung, Co-Owner and Assistant Manager — Procurement (centre) challenged himself by joining the 42km full marathon for the third straight year.

Practice makes perfect! Our Talents demonstrate tenacity and esprit de corps by rowing in sync.

Dragon Boat Power

To embolden our Talents in their continued pursuit of speed and a healthy lifestyle, we organised two dragon boat experience sessions on 24 November and 1 December 2018. Whilst most of our participants were new to dragon boating, they were quick to adapt and apply their strengths of competitiveness, passion and team unity via a number of exciting races.

Vappy Party 2018

Towards the end of each calendar year, we organise a Vappy (Vappy = Very Happy) Party to celebrate another year of hard work, excellence and achievements with our 3,000+ Talents! This year's theme, "United Stage", sought to encourage Talents from all teams and backgrounds to showcase their dazzling abilities as performers on the HKBN stage. In addition, to recognise the longstanding contributions made by our Talents, over 200 Long Service Awards were also given out in both Guangzhou and Hong Kong.

Our management toasted our Talents to celebrate a fruitful 2018 during our Vappy Party at AsiaWorld-Expo.

Happy faces of our Talents from Guangzhou Enterprise Solutions team at Shangri-La Hotel, Guangzhou.

Co-Ownership

Co-Ownership is our key LUCA (Legal Unfair Competitive Advantage) and key differentiator which defines HKBN's unique strengths. Unlike the more traditional approach of giving stock options to a very limited group of senior executives, the Company's Co-Ownership is open to all supervisor-and-above level Talents, spanning our operations across Hong Kong, Guangzhou and Shenzhen.

To participate, Talents can choose to invest their personal savings in the amount of between two and 12 months of salary to acquire HKBN shares at full market price. At a ratio of three shares awarded for every seven purchased, the bonus shares are then vested over three anniversaries.

In January and February 2019, we opened invitations for Co-Ownership Plan II to newly joined or newly promoted supervisory or above-level Talents. 77 new Co-Owners, including seven Co-Owners from newly acquired ICG, participated in the Plan. As at the end of this interim period, we have over 340 Co-Owners. It is worth noting that there is a very strong alignment among our management. Co-Ownership take-up rate among our CXO executives is 100%; 89% among Director/Associate Directors; and 63% among Manager-grade Talents.

Over

340

Co-Owners run HKBN with skin in the game

Talent Development

Investing in life-long development remains a crucial example of how we treat Talents as priority number one. Our commitment is to ensure that our Talents have all the development opportunities and tools to stay ahead of the game in an ever-evolving business and tech environment.

Talks led by successful market leaders are regularly held to keep our Talents abreast of market trends and the latest technology developments.

Purposeful Leadership as our Emerging Attribute

HKBN is not only a profit-making company, but a community-conscious organisation. One of the key ways we actualise this belief is by promoting "Purposeful Leadership". The goal behind this approach is to motivate Talents to always think and act with our Core Purpose when dealing with customers, Talents, business partners and suppliers, our communities and the environment. As such, at the outset of FY19, our HKBN manager-and-above-level leaders have set purpose-driven goals based on the impact to be made with different stakeholders.

Empowering Proactive Learning

As a company that strongly believes in proactive learning, our goal is to engage and empower Talents to build on their strengths, actualise their dreams and live a purposeful life.

In light of this context, HKBN Talents enjoy plenty of opportunities to learn and be inspired. At our monthly Management Meetings, inspirational speakers are invited to share their enlightening accomplishments and experiences. Topics covered include everything from entrepreneurship, business ethics to social and environmental responsibility, as well as touching personal triumphs.

In addition, we also offer numerous long-term developmental programmes. For ambitious Talents who missed out on a university education, our flagship development programme, "Next Station: University", has touched the lives of dozens of Talents (and their families) with a life-changing opportunity to grow from higher education opportunities. With the company's full support, Talents who graduate make a significant step forward in transforming their career prospects. This year, 32 Talents will be graduating to earn an internationally recognised Bachelor's degree.

English conversation training is provided to our Guangzhou Enterprise Solutions Talents to enhance their language skills.

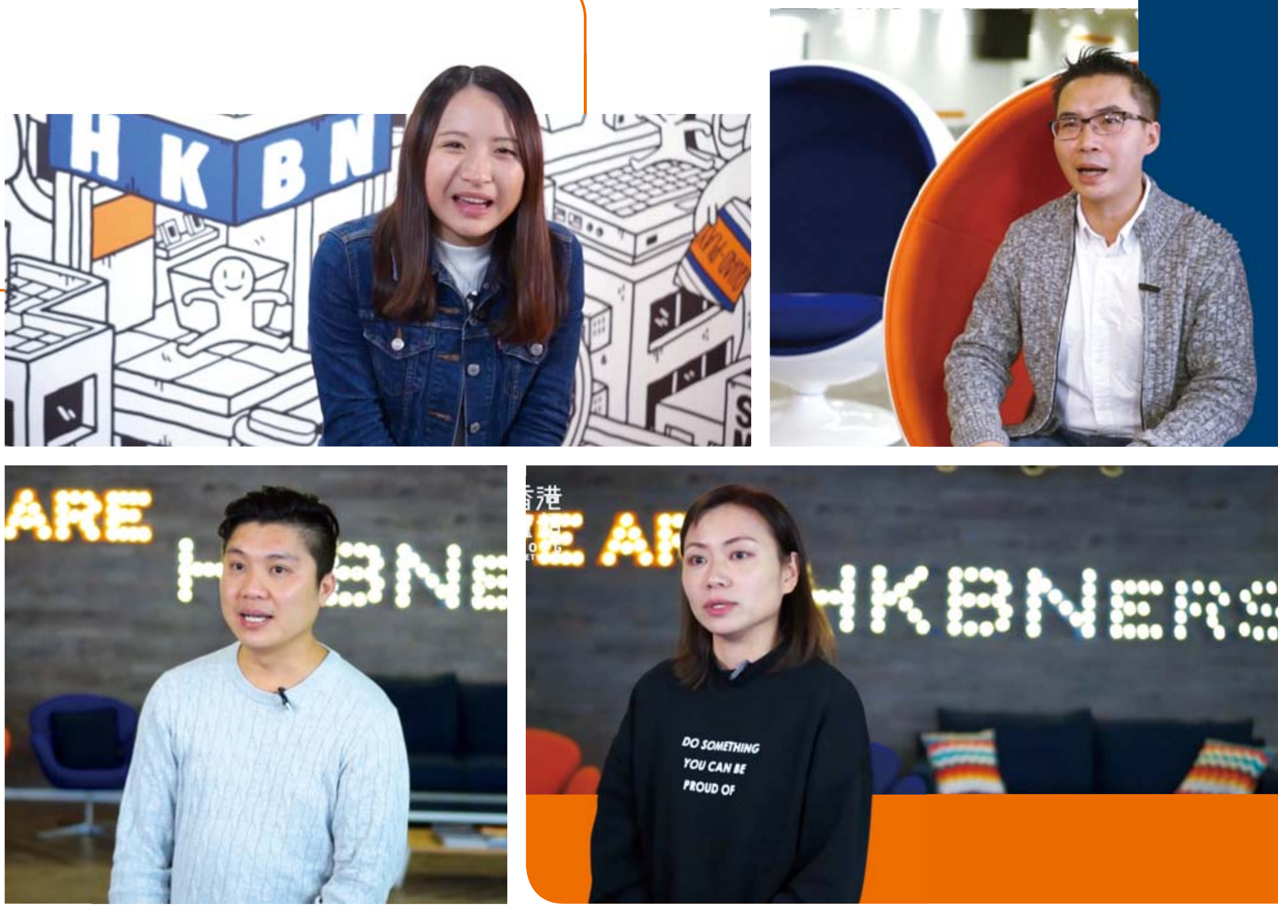
Cultivating Home-grown Leaders

As a Group with a long term vision, we consider in-house leadership development extremely vital. Besides attracting Talents externally, being able to groom Talents from within ensures continuity of our unique corporate culture, our purpose, our values and our objectives – as well as reward great performers with plentiful opportunities to progress through the ranks.

Our First Home-grown Chief Marketing Officer

A true home-grown Talent in every sense of the word, Elinor Shiu first joined the Group in 1994 as a Marketing Trainee. In March 2019, she was appointed as our CMO – Residential Solutions to lead the marketing strategies and operations of HKBN residential business. Over the years, she worked diligently to take advantage of numerous exposure and development opportunities in the company, including serving as a "Mini-CEO" of Kowloon East district from 2008 to 2012, heading the district's overall residential business by overseeing network planning, operation, sales and retail management, installation, maintenance as well as customer services. She later took up different positions across Residential and Enterprise Solutions businesses, which groomed her into an all-round business leader. Along with her appointment as CMO – Residential Solutions, Elinor also joins our highly motivated Management Committee, who serve to oversee HKBN's continued growth.

Serving also as Co-Owners, our Management Committee members unleash their fighting spirit to steer HKBN's continued strong growth; (from left to right) CFO Andrew Wong, CIO Eric Ho, Executive Vice-chairman William Yeung, CMO – Residential Solutions Elinor Shiu, CEO of HKBN Enterprise Solutions and CEO of WTT Billy Yeung, Group CEO NiQ Lai and CTO Gary McLaren.



Amy Tsui (top left), Benny Tang (top right), Alex Ng (bottom left) and Wing Tong (bottom right) were amongst the 319 high performing Talents who earned promotions in January 2019.

Scan the QR code to watch a video featuring the stories of growth and development behind some of our home-grown Talents.

China Operations: Local Leader Development Plan

For most Hong Kong-based companies with operations in mainland China, it is unusual to offer local staff the opportunities to progress into management positions. The typical approach simply reserves such roles to Hong Kong employees stationed in mainland China. At HKBN, we see things differently.

Since 2015, we have pursued a focused strategy to develop and promote local Talents into management positions. By providing locally-hired Talents with a clear development and leadership path, our operations can reap the benefits of greatly motivated individuals, increased group morale and a management team that is sympathetic to local perspectives – as well as an improved employer brand.

As a result, we've enhanced opportunities for high potential Talents via various Talent development programmes. Accordingly, this has transformed the makeup of our Guangzhou leadership team which now comprises 12 local leaders. In January 2019, a Guangzhou Talent was promoted to be our first locally nurtured Associate Director.

Our First Home-grown Associate Director in Guangzhou

In January 2019, Benny Tang was appointed as our first-ever locally-groomed Associate Director in mainland China. An outstanding leader of our Guangzhou Talent Management team, Benny began steering our Talent engagement efforts first as a Manager back in 2013. Proving himself with efforts that have enhanced our Talent-first policies and initiatives in mainland China, he continues to shape our progress through a nuanced awareness of what local Guangzhou Talents expect. This earned him a promotion to Senior Manager in 2017.

As an effort of local leadership development in Guangzhou, we now have our first home-grown Associate Director Benny Tang (4th from left) and 11 management Talents from our Enterprise Solutions Sales, Residential Sales, Customer Services, IT, Talent Management and Finance teams.

Actively Embracing Challenges

To champion LIFE-work priority as well as our Talents' embrace of new and ever-more difficult challenges, we continued to support their participation in different sporting activities. Besides sponsoring our Talents to run in the Hong Kong Marathon, we've also deepened our sports activity support on offer.

For the Spartan Race, considered one of the world's most demanding obstacle course races, a professional coach was hired to help our Talents prepare and stay fit. As a result, 62 Talents finished the race, proving both their physical and mental toughness.

Strength in numbers, we were the second largest corporate group to run in the November 2018 Hong Kong Spartan Sprint, a 5km/20+ obstacle challenge.

HKBN x ICG Outward Bound Challenge

This past December, 11 warriors from HKBN and ICG formed a team to partake in the Outward Bound Corporate Challenge, using the occasion to build camaraderie as they competed against other companies and organisations.

In addition, a number of ICG Talents each donated the equivalent of one-month of salary (as well as participated as active facilitators) to provide about 100 underprivileged local teenagers the chance to experience a 5-day Outward Bound Leadership Course. Throughout the experience, the students tried experiences they would not normally have — such as camping out at night, cooking dinner, deciding who would be in charge and much more. Through these life-changing experiences they formed bonds, as well as developed their own self-confidence and independence.

HKBN and ICG Talents challenged themselves and further strengthened our team spirit at the Outward Bound Corporate Challenge held in December 2018.

Workplace Health and Safety

The success of our business hinges greatly on how we ensure Talents can work in a healthy and safe environment.

The following are the key initiatives, policies and developments which transpired during the reporting period:

Safety in Practice

A Safety Committee was established, comprising 13 representatives from Talent engagement departments and technical departments (trained as first aiders, fire wardens, etc.). On 20 Nov 2018, the Safety Committee convened a meeting to outline plans to reduce workplace injuries through more enhanced training, surprise operational checks (to ensure Talents adhere to their safety training), and more.

Our broadband engineers (from left to right) Billy Tsang, Ki Su, Ting-fung Chung and Ho-kit Cheung are now better equipped with a set of Personal Protection Equipment comprising a safety belt, a bump cap and a pair of safety gloves.

A Safety Committee with representatives from key departments was set up in 2018 to enhance overall workplace safety.

Safety Infrastructure Upgrade

Since October 2018, our teams of broadband engineers have been outfitted with a set of Personal Protection Equipment which includes a safety belt, a bump cap and safety gloves for protection from potential hazards. Automated External Defibrillator ("AED") has been installed in our offices, with practical trainings provided for 96 HKBN Talents with knowledge of using the AED.

An external safety expert was invited to give a safety talk for our Talents and nearby Building Management Offices.

Safety Awareness Upgrade

An external guest speaker presented a safety talk for 117 HKBN Talents, as well as guests from nearby Building Management Offices. Our speaker, who had overcome a number of challenging adventure expeditions, shared the importance of safety vigilance in handling the challenge and the risks of daily life and work.

In addition, a quaint animation video, focused on indoor workplace safety, was created to remind Talents about precautionary safety best practices like proper working postures, manual handling tips, and other hidden hazards in the office.

Scan here to watch a short video on our promotion of office safety.

To date, we have offered 96 HKBN Talents with the necessary training to save lives by operating an Automated External Defibrillator.

During the reporting period, there were four court cases involving us in relation to compliance with the Occupational Safety and Health Ordinance and the Occupational Safety and Health Regulations. One of these cases has been withdrawn, whilst court proceedings of the other three cases have concluded with immaterial fines imposed on us.

The following describes the details pertaining to some of these incidents:

On 28 April 2018, two Talents were diagnosed to have suffered carbon monoxide poisoning after using electricity generators in a hub centre. They received medical treatment and were discharged the same day. It was found that the ventilation in the premise was inadequate.

After the incident, we took immediate remedial actions and improvements to avoid similar cases from reoccurring. These actions included review and revision of the operational procedure for using electricity generators (with endorsement by a safety consultant); making available harmful gas detectors; the provision of applied training to all technicians on an annual basis; quarterly surprise checks on hub sites by our safety consultant beginning in December 2018; and annual drills for technicians to gain practical knowledge in handling similar incidents.

On 25 May 2018, an Occupational Safety Officer of the Labour Department conducted a visit at our workplace in Chuan Kei Factory Building in Kwai Chung. The Safety Officer noted that one of the exit doors of the premises was padlocked which was in contrary to the safety requirements. Shortly after the initial inspection, we took improvements to avoid any similar incidents from reoccurring.

Awards and Recognitions

Awards & Certificates	Conferred by
Fair Trade Corporate Label — Mangkhut Good Employer	Fair Trade Hong Kong
Best HR Awards — Best Compensations & Benefits Award	CTgoodjobs
Most Innovative Employer Brand — Silver Award	LinkedIn

Business Partners & Suppliers

HKBN emphasises building long-term mutually beneficial business partnerships. (From right) William Yeung, our Co-Owner and Executive Vice-chairman and Mark Lee, TVB Executive Director and Group CEO, announce extending their strategic partnership to the enterprise market.

Above all, the primary objective of HKBN's sourcing activities is to ensure continuity of our product and service supply, which we accomplish by maintaining effective relationships between our business units, business partners and suppliers in a fair, transparent and mutually beneficial win-win manner. Understanding that long-term relationships with business partners and suppliers hinge on two-way dialogue, we put great emphasis on trust, communication and shared values on the basis of business ethics, integrity and commitment to deliver world-class products and services.

During the reporting period, we further strengthened our business partners and supplier-related activities through the following actions:

To create even stronger engagement with business partners and suppliers, we are currently crafting a Supplier Satisfaction Survey. Once completed in April 2019, the surveys will be used to gather insight in areas we have fallen short, as well as provide business partners and suppliers with an additional channel to voice concerns and/or ideas.

In April 2018, we finalised our Supplier Code of Conduct ("SCoC") in relation to corporate governance, environmental policies, health and safety standards, and fair labour policies. To ensure that business partners and suppliers understand our expectations across these areas, the SCoC is now included in our supplier requisition and tendering process. Our business partners and suppliers understand they are expected to either comply with our SCoC or have their own code of conduct which espouses a similar approach to expectations for their respective suppliers and subcontractors.

As at the end of this reporting period, 90% of our top 100 vendors have endorsed our SCoC. We will continue to monitor progress with a goal to achieve 95% endorsement by the fourth quarter of 2019.

90%

of our top 100 vendors have endorsed our Supplier Code of Conduct

Community


路向四肢傷殘人士協會
Direction Association for the Handicapped
非凡槍戰
香港寬頻
HONG KONG BROADBAND NETWORK
寬樂幫
香港寬頻人才
CSI基金
HKBN TALENT CSI FUND
香港寬頻
HONG KONG
BROADBAND NETWORK

The most obvious way we "Make our Hong Kong a Better Place to Live",

is through the work we do for our local communities.

As a socially-responsible business, we take a pragmatic approach which goes beyond pure philanthropy to focus on efforts that generate purposeful good by way of sustainability and empowerment.

Rather than CSR, we've embraced Corporate Social Investment — led by our Talents and our company resources — to initiate an array of social investments that are helping our communities become gainfully self-sufficient in the long term.

Technology for Good

As a responsible telecommunications leader, we're committed to leveraging our Talent expertise, as well as corporate strengths and resources to promote technology literacy across local communities, particularly among the youth. Throughout the interim period, we worked closely with HKBN Talent CSI Fund, our independently operated charity organisation funded by our Co-Owners, to drive various "Technology for Good" initiatives aimed at helping youths evolve into informed and responsible digital citizens. The following are some of the key initiatives:

Net's Be Wise

Our children live in a world full of digital media, new technologies and cyber-related risks. In 2018, HKBN and HKBN Talent CSI Fund partnered with Junior Achievement Hong Kong to launch the 18-month "Net's Be Wise" programme, an initiative aimed at enhancing the "Digital Intelligence" ("DQ") of primary school students aged 8-12.

At the end of 2018, Phase II of the programme was kick-started to equip 2,000 primary school students with cyber wellness knowledge by August 2019. Throughout the learning journey, students will acquire eight digital citizenship competencies through the DQ World online learning platform. These competencies include screen time management, cyber security, privacy management, critical thinking and others. Students will also be engaged through various offline school workshops to reinforce their know-how, like how to set up a secure password, what is a digital footprint, how to safeguard online privacy and much more.

We aim to equip

2,000

primary school students with cyber wellness knowledge

With the help of our volunteers, primary students learned how to protect their personal information.

Talent Volunteering

At HKBN, the energies and efforts of our Talents play a crucial part in how we generate purposeful good for our communities. Throughout the interim period, a series of volunteer activities were organised featuring contributions made by 158 HKBN volunteers. Cumulatively, our Talents provided 1,076 hours whilst serving in community programmes that we organised.

158

HKBN volunteers served

1,076 hours

in community programmes that we organised

HKBN Volunteer Day 2018

Our volunteers led and accompanied the elderly to experience "digital travel" with the help of a bicycle VR device.

We organised what was probably Hong Kong's first disabilities' indoor war-game event for wheelchair users to introduce them to a brand new activity option.

Our volunteers worked with primary students to paint murals along the stairway with a message of cyber wellness.

HKBN volunteers accompanied six ethnic minority girls to make their first ever visit to Macau.

Individually, HKBNers often do our part by pledging time, energy and sometimes more, in hopes of empowering society's most underprivileged. On an annual basis, we organise an HKBN Volunteer Day so that many more Talents get to experience the awesome joys of helping others in need.

For our most recent 2018 Volunteer Day held in October 2018, we transformed into dream-makers with one selfless mission in mind – to make the wishes of nine vulnerable groups come true! All said, over 110 volunteers joined hands to help nine different groups of people, ranging from the vision and mobility-impaired to underprivileged ethnic minority girls and even students at a primary school, conquer their own difficulties/ challenges to accomplish some 'impossible' milestones. Judging by the way many of our beneficiaries have renewed hope and excitement for life, our HKBN Volunteer Day was a smashing success!

Scan the QR code to watch the HKBN Volunteer Day 2018 highlights:

9 different community programmes were organised on our Volunteer Day 2018

Teaming Up for the Community

To encourage and promote volunteerism among our Talents, this year we introduced a brand new "Team Building x Volunteering" series of initiatives. Through this, Talents are encouraged to work in teams to build esprit de corps, whilst embracing social responsibility to do good for our communities. In February 2019, our HKBN Enterprise Solutions Major Account Relations Team kick started its first attempt to volunteer together. The team spent two afternoons visiting seniors who live alone in Kwu Tung, exploring ways to improve their living conditions.

Led by Maggie Liu (2nd from right), a team of HKBN Talents spent two fruitful afternoons visiting seniors living alone in Kwu Tung.

"After the volunteer service, our team unity became noticeably stronger. Apart from extending our care to the underprivileged, serving the community together allowed us to unwind and polish our communication skills. Many of our friends and clients found our volunteering experience very inspiring!"

Maggie Liu, Co-Owner and Senior Manager, Major Account Relations — Enterprise Solutions

Awards & Recognitions

Award and Certifications	Conferred by
2018 Tsuen Wan & Kwai Tsing District Caring Shop and Company Award Scheme — Caring Shop and Company Award	Social Welfare Department — Tsuen Wan/Kwai Tsing District Social Welfare Office
Caring Company Scheme — 10 Years Plus Caring Company Certification	The Hong Kong Council of Social Service
Social Capital Builder Logo Awards 2018	Community Investment and Inclusion Fund of the Labour and Welfare Bureau
Tithe Ethical Consumption Movement 2018 SE Supporter Plus Award	The Fullness Social Enterprises Society

荃葵青愛心商戶及企業

10 years+ 商界展關懷 caringcompany

2018-20 Social Capital Builder Awards 社會資本動力獎

2018 Supporter+ 傑出支持社企機構

Environment

As an environmentally responsible company, we are constantly exploring better, more efficient ways to minimise our carbon footprint, operational waste and impact on the planet. Given the scope of our operations, a substantial component of our eco-impact is manifest from the consumption of electricity at our offices, data centres, as well as other network-related operations, and extends to the way waste is generated through administrative, marketing, customer service and general every day activities. Mindful of this, we continue to smartly focus our efforts in these particular areas. The following are some of the new or on-going eco-performance initiatives we've undertaken:

Carbon Emissions Reduction and Energy Savings

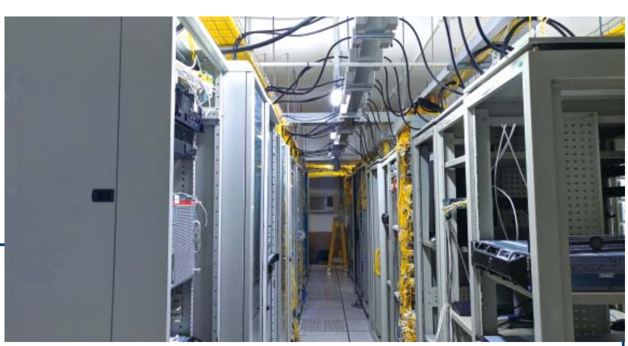
Something from Nothing

Since 2016, we embarked on an innovative journey of energy and cost savings. Considered one of our flagship energy performance projects, "Something from Nothing" was first initiated through the help of an external energy consultant. In a highly unique manner, this pioneering effort has stood out for requiring zero initial capital investment from us, despite the many energy efficiency upgrades that have been carried out inside our office environment. The expenditure for all concurred retrofitting has been fully funded by our consultant, who shares a fraction of our energy cost savings as compensation.

During the first phase of improvement upgrades, the focus was primarily on augmenting air-conditioning and lighting efficiency across our office and data centre locations. Between July 2016 and December 2018, these efforts have facilitated us to save 1,692,000 kWh in electricity consumption.

Following the remarkable reductions achieved by "Something from Nothing" at our office, the project scope was extended in the second phase to include segments of our data centre operations and supplementary enhancement work undertaken to replace a chiller plant at our headquarters. As a result, we saved 989,000 kWh electricity from July 2017 to December 2018.

As at December 2018, the two phases of "Something from Nothing" resulted in 2,682,255 kWh of electricity saved.



We replaced T5 fluorescent tubes with LED tubes fitted with motion sensors at two of our data centres as a solution to cut energy consumption.

Accumulated energy savings
(from July 2016 to December 2018):

Electricity saved	CO_2 emissions eliminated
2,682,255 kWh	1,448 tonnes

Artificial Intelligence (AI) Solution

Through adopting an IoT solution, we now control lighting energy use via a smartphone app.

In January 2018, we began adopting an IoT solution to manage office lighting. This measure has empowered our Talents with the convenience of personalised illumination, enabling easy control of their own lighting anytime, anywhere via a custom mobile app.

In February 2019, we began exploring the use of AI technology to optimise energy efficiency for one of our chillers. The system uses big data and machine learning to identify energy saving opportunities. Based on our initial one-month chiller performance optimisation analysis, a potential 7% energy savings can be achieved.

Waste Minimisation

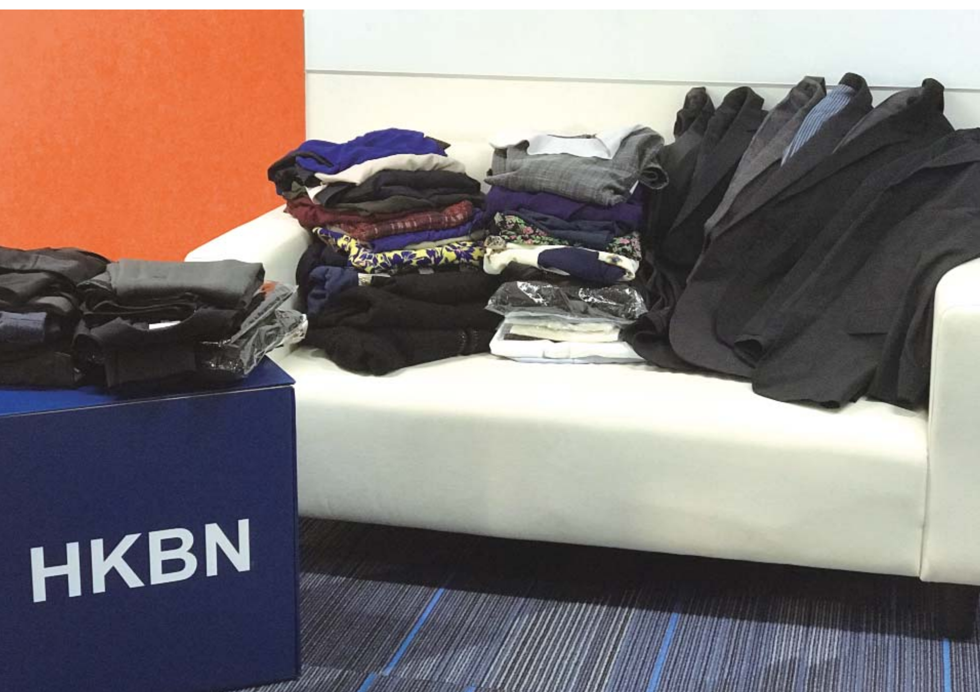
10-tonne Plastic Bottle Collection Challenge

We took part in this meaningful campaign organised by social enterprise, V Cycle. It aims to gather over 10 tonnes of PET (polyethylene terephthalate) plastic bottles across Hong Kong between September 2018 and March 2019, and remake them into reusable tote bags. To help build a sustainable ecosystem, waste pickers will be employed to take part in the recycling process, enabling the rehabilitated participants to earn extra income. In addition, proceeds earned from the bag sales will go towards improving the lives of the waste pickers.

For our part, HKBN Talents helped collect around 180 kg of plastic bottles from HKBN offices.

On a weekly basis, V Cycle staff collect PET plastic bottles from our office for recycling.

Suit for You Collection Programme



Used suits were collected and donated to help underprivileged students save on wardrobe expenses for job interviews.

To help university students and graduates who live on very tight budgets, as well as students with special education needs, we joined forces with a career consultancy, Interview Hero, to donate used business suits and work clothes. The business apparel will be put to great use during job interviews! In total, 60 formal suits were provided by our Talents — and saved from entering the landfills.

Bio-waste collection bins are placed in our office pantries to collect food wastage for turning into fertilisers.

Zero Waste Pantry

With a goal to achieve zero waste in our pantries, we enhanced our eco-friendly strategy with more green initiatives. On top of providing reusable cutlery to eliminate our dependency on plastics, bio-waste food collection bins were also placed in each pantry starting November 2018. Through this relatively effortless move, we estimate that at least 2,450 kg of food waste will be saved from entering our landfills every year. In addition, tableware drying racks have been added to reduce our dependency on paper towels. Used coffee grinds are also collected for upcycling into soaps or other products.

Awards and Recognitions

Awards & Certificates	Conferred by
2018 CarbonCare® Label — Level 3	CarbonCare InnoLab
Low Carbon Office Operation Programme — Gold Label	World Wide Fund For Nature Hong Kong

Purpose & Innovation

When Purpose Meets Innovation: Home Gateway

Unparalleled in functionality, our Home Gateway all-in-one service is a shining example of how our pursuit of purposeful profits is changing the marketplace, raising the bar in a multitude of ways for consumers.

Our all-in-one Home Gateway supports 2Gbps fibre broadband, home network security, parental control, home Wi-Fi and telephone functionalities in a single device.

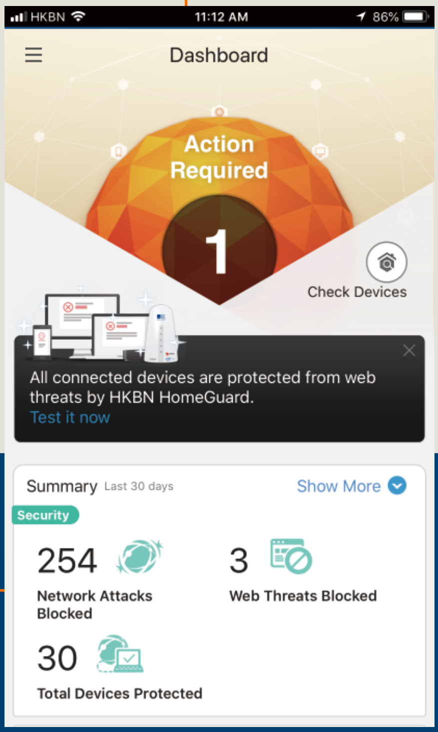
Our new and improved Home Gateway was conceived to bring consumers everything HKBN is passionate about: innovation, value-for-money, practicality, our unwavering desire to do the right thing, and more. First introduced in late November 2018 as an upgraded version of Home Gateway 1.0 (launched October 2017), our latest all-in-one Home Gateway device — Hong Kong's first of its kind which revolutionarily served as a launchpad for our all-new 2Gbps (on a single-fibre network) service — combines ultra-fast broadband, home network security, parental control, home Wi-Fi and telephone functionalities.

As a telecommunications company self-conscious of our commitment towards the Hong Kong we call home, a heavy emphasis was made to tackle some serious cybersecurity challenges faced by everyday consumers. As a result, the Home Gateway service comes packaged with enterprise-level security for all devices connected to the home network, as well as a Parental Control feature to help parents comprehensively safeguard their children and mitigate risks like online addiction, potentially harmful websites and more.

Delivering revolutionary services for consumers

Home Gateway and our 2Gbps service allows users to connect Internet-enabled devices over one single home network. Through this seamless solution, our users can connect multiple devices at ultra-fast speeds to play, watch, stream, create and share with ease. And knowing that usability and hassle-free convenience is paramount for most consumers, we've eliminated the stress with round-the-clock remote network troubleshooting and diagnosis, a 24/7 technical support hotline and fully optimised service installation, including Wi-Fi optimisation conducted by our team of broadband engineers.

Rex Hui (centre) and his Product Development & Management teammates, (from left to right) Alex Chow, Alan Ko, Shirley Lai and Karen Ho enjoy the numerous features and benefits, as well as bandwidth freedom provided by our all-new Home Gateway device.



Our HomeGuard app allows users to easily monitor the network connection in their homes.

Mainstreaming home cybersecurity as a priority

For far too long, cybersecurity protection on the consumer-level has been treated as an after-thought. In today's always-connected world replete with smart devices in every corner, a lax approach to online protection is no longer tolerable. According to statistics compiled by Trend Micro, a global authority in the field of cybersecurity, Hong Kong ranked fourth highest for hacking attacks amongst 172 regions worldwide in September 2018.

Mindful of the constantly evolving threats, we sought to help household consumers by teaming up with Trend Micro to provide advanced home network security. HKBN HomeGuard — Network Security works by constantly detecting, analysing and protecting against external attacks and malicious network activities, whilst blocking unsafe websites and files. Our advanced Deep Packet Inspection (DPI) technology delivers 3-tier protection against common attacks and network intrusions. To seamlessly guard against ever-evolving threats, Trend Micro regularly updates the system with the latest list of dangerous websites and malware.

Putting control in the hands of parents

As parents, we know there are many risks that our children may become exposed to through the Internet. From online addictions, harmful websites, to online bullying and even predatory interactions from strangers, the dangers of cyberspace are a growing concern for parents everywhere.

To address this issue, and build a safer future for Hong Kong, we provide HKBN HomeGuard — Parental Control so that parents can easily manage and monitor a child's Internet activity. This empowering feature gives parents full control to block access to specific kinds of websites, set online time limits, pause online usage, and much more. For added peace of mind, parents stay informed about their child's Internet activity through automated notifications and other reporting features sent via our mobile app.

Other than devising a comprehensive Home Gateway solution for the market, Alex Chow, Co-Owner and Senior Manager — Product Development & Management also shared cyber security tips with primary school students and their parents.

"In many ways, our all-in-one Home Gateway service highlights the best aspects of what makes HKBN so unique and competitive. We've taken bold disruptive steps to expand the status-quo boundaries normally associated with Internet service. We bring the benefits of cutting-edge technology, blazing fast 2Gbps fibre broadband, unparalleled home network security and parental control, high-performance home Wi-Fi and HD telephony service all in an affordable package. Home Gateway is a great example of how we live our Core Purpose to 'Make our Hong Kong a Better Place to Live'"

Elinor Shiu, HKBN Co-Owner and Chief Marketing Officer — Residential Solutions

Net's Be Wise

Students acquired eight digital citizenship competencies and enhanced their DQ through our "Net's Be Wise" programme.

Embracing our responsibilities as a leading Internet service provider, we've undertaken an ambitious initiative to enhance the cyber wellness of Hong Kongers, starting with primary school students aged 8 to 12.

Since January 2018, our Corporate Social Investment team partnered with Junior Achievement Hong Kong, backed by financial support from our independently operated HKBN Talent CSI Fund, to kickstart "Net's Be Wise", a cyber wellness pilot programme designed to enhance the Digital Intelligence ("DQ") of Hong Kong primary students.

"Wherever we go and whatever we do, the Internet is reshaping the way we behave and communicate," says Sandy Wong, Manager — Corporate Social Investment. "Consequently, everyone should be mindful that our online activities will potentially involve cyber-risks."

"Through the 'Net's Be Wise' programme, our goal is to elevate awareness for cyber-wellness, which is something we found lacking amongst Hong Kongers, especially children," says Tracy Chan, Co-Owner and Officer — Corporate Social Investment, "We started this journey by working closely with Junior Achievement Hong Kong to deploy an online learning platform introduced by DQ Institute and developed various offline workshops for use in the classroom."

Building a safer online future for Hong Kong

With our goal set on educating primary school students, our programme has (as at the end of this reporting period) collaborated with 10 primary schools throughout Hong Kong. In total, 834 students have been empowered to make judicious decisions in cyberspace, acquiring eight digital citizenship competencies. These include screen time management, cyber security, privacy awareness, critical thinking and others. Additionally, different offline workshops have been provided to challenge the students to put the knowledge they've acquired into practice.

What teachers and students say

Net's Be Wise really fills the needs of our students, and will no doubt change their digital habits. It has been invaluable in helping to prevent cyberbullying from happening at our school.

Mr. Wong
Man Kiu Association
Primary School teacher

In the past, getting access to inappropriate information was easy. After the programme, I learnt how to distinguish the authenticity of online information and avoid reading content that's inappropriate for me.

Sandy
Student participant from St. Bonaventure Catholic Primary School

"Net's Be Wise" Charity Family Harbour Cruise

Nearly 80 parent-child pairs joined our harbour cruise and enjoyed a 2-hour cyber wellness learning experience in an offline environment.

Apart from augmenting digital skills in the classroom, parent participation and support will play a crucial role in any child's cyber wellness development. With this in mind, HKBN and HKBN Talent CSI Fund organised the "Net's Be Wise" Charity Family Harbour Cruise event, inviting nearly 80 parent-child pairs to board the "World Star" cruise and enjoy a 2-hour cyber wellness learning experience at sea. Underscored by an atmosphere of fun and games, our parent-child workshop shared cyber wellness awareness across a range of practical scenarios. In addition, parents were given a set of educational cyber-risk Q&A cards, a handy tool designed to help children navigate digital challenges in real-world encounters.

A mother and her child learn about screen time management through a drink mixing exercise guided by our volunteers.

Singapore cyber-wellness study trip

Benchmarking from the best is something we at HKBN do often. As Singapore is considered one of the world's leading proponents of cyber-wellness education — the city-state mandates digital citizenship learning for primary and secondary school students — our CSI team visited various organisations in February 2019 to acquire best practices, get inspired and share practical experiences.

In mid February 2019, members of our Corporate Social Investment team Bonnie Chan (2nd from left), Sandy Wong (3rd from left) and Tracy Chan (2nd from right) visited Singtel, TOUCH Cyber Wellness and DQ Institute to become inspired by their experiences in promoting cyber wellness across Singapore.

"We wanted to explore whether there are better ways to do cyber-wellness, especially from the perspective of private sector and non-government organisations with a similar background to Hong Kong," says Sandy Wong, "Our visit with Singtel offered great insight into their broad range of digital citizenship efforts, which include focussing on getting parents involved, or the use of custom mobile apps and much more."

"In Hong Kong, a formal education in cyber wellness is lacking," Tracy comments, "We visited TOUCH Cyber Wellness, a NGO with 17 years of expertise, and were very impressed by the way they take a systematic approach on this matter. To their credit, they have had an influence in getting the Singapore government's buy-in."

What's Next

"In my opinion, cyber-wellness knowledge in Hong Kong remains insufficient — resources and general awareness needs to improve. We'll continue to work with more schools, as well as concentrate on getting parents to buy-in — their involvement is the most important driving factor. To make our Hong Kong a better place to live, we'll also explore opportunities to inspire the private sector to take part in this good cause," says Sandy.

Review Report

REVIEW REPORT TO THE BOARD OF DIRECTORS OF HKBN LTD.

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 49 to 77 which comprises the consolidated statement of financial position of HKBN Ltd. (the "Company") as of 28 February 2019 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 28 February 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 April 2019

Consolidated Income Statement

For the six months ended 28 February 2019 — unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 28 February 2019 $'000	28 February 2018 $'000
Revenue	4	**2,218,591**	1,868,095
Other net income	5(a)	**10,744**	8,249
Network costs and costs of sales		**(833,661)**	(545,452)
Other operating expenses	5(b)	**(1,059,643)**	(1,015,508)
Finance costs	5(d)	**(86,978)**	(27,069)
Share of losses of joint ventures		**(79)**	(234)
Profit before taxation	5	**248,974**	288,081
Income tax	6	**(49,529)**	(47,146)
Profit for the period attributable to equity shareholders of the Company		**199,445**	240,935
Earnings per share	7		
Basic		**19.9 cents**	24.1 cents
Diluted		**19.9 cents**	24.0 cents

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 September 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 55 to 77 form part of this interim financial report. Details of dividend payable to equity shareholders of the Company are set out in note 13.

Consolidated Statement of Comprehensive Income

For the six months ended 28 February 2019 — unaudited
(Expressed in Hong Kong dollars)

	Six months ended	
	28 February 2019 $'000	28 February 2018 $'000
Profit for the period	**199,445**	240,935
Other comprehensive income for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, with nil tax effect	**3,515**	5,736
Total comprehensive income for the period attributable to equity shareholders of the Company	**202,960**	246,671

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 September 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 55 to 77 form part of this interim financial report.

Consolidated Statement of Financial Position

At 28 February 2019 — unaudited
(Expressed in Hong Kong dollars)

	Note	At 28 February 2019 $'000	At 31 August 2018 $'000
Non-current assets			
Goodwill		**1,804,904**	1,804,904
Intangible assets		**1,358,810**	1,454,877
Property, plant and equipment	8	**2,577,371**	2,293,950
Investment properties	8	**226,897**	–
Customer acquisition and retention costs		**423,869**	–
Interest in joint ventures		**8,016**	8,095
Other non-current assets		**26,649**	64,950
		6,426,516	5,626,776
Current assets			
Inventories		**34,661**	32,704
Trade receivables	9	**330,944**	247,210
Other receivables, deposits and prepayments	9	**113,298**	292,646
Contract assets		**156,106**	–
Amount due from a joint venture		**9,008**	8,544
Cash and cash equivalents	10	**420,874**	373,293
		1,064,891	954,397
Current liabilities			
Trade payables	11	**295,675**	138,918
Other payables and accrued charges — current portion	11	**412,874**	461,373
Contract liabilities — current portion		**95,530**	–
Deposits received		**65,961**	69,343
Deferred services revenue — current portion		**–**	98,653
Obligations under granting of rights — current portion		**9,024**	9,024
Amounts due to joint ventures		**10,000**	10,000
Contingent consideration — current portion	15	**3,308**	18,597
Tax payable		**73,168**	109,410
		965,540	915,318
Net current assets		**99,351**	39,079
Total assets less current liabilities		**6,525,867**	5,665,855

Consolidated Statement of Financial Position

At 28 February 2019 — unaudited
(Expressed in Hong Kong dollars)

	Note	At 28 February 2019 $'000	At 31 August 2018 $'000
Non-current liabilities			
Other payables and accrued charges — long-term portion	11	**178,272**	201,266
Contract liabilities — long-term portion		**78,758**	–
Deferred services revenue — long-term portion		**–**	79,371
Obligations under granting of rights — long-term portion		**20,307**	24,819
Deferred tax liabilities		**446,585**	408,431
Contingent consideration — long-term portion	15	**32,823**	25,697
Provision for reinstatement costs		**10,203**	15,643
Bank loans	12	**4,451,057**	3,873,716
		5,218,005	4,628,943
NET ASSETS		**1,307,862**	1,036,912
CAPITAL AND RESERVES	13		
Share capital		**101**	101
Reserves		**1,307,761**	1,036,811
TOTAL EQUITY		**1,307,862**	1,036,912

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 September 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

Approved and authorised for issue by the board of directors on 30 April 2019.

Chu Kwong YEUNG	)	Directors
Ni Quiaque LAI	)	

The notes on pages 55 to 77 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 28 February 2019 — unaudited
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company						
	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Other reserve $'000	Retained profits $'000	Exchange reserve $'000	Total $'000
Balance at 1 September 2017		101	105,880	27,192	596,420	403,382	(4,087)	1,128,888
Changes in equity for the six months ended 28 February 2018:								
Profit for the period		–	–	–	–	240,935	–	240,935
Other comprehensive income		–	–	–	–	–	5,736	5,736
Total comprehensive income		–	–	–	–	240,935	5,736	246,671
Dividend approved in respect of the previous year	13(a)(ii)	–	(105,880)	–	–	(125,423)	–	(231,303)
Equity-settled share-based transactions	13(d)	–	–	4,488	–	–	–	4,488
Balance at 28 February 2018 and 1 March 2018		101	–	31,680	596,420	518,894	1,649	1,148,744
Changes in equity for the six months ended 31 August 2018:								
Profit for the period		–	–	–	–	155,962	–	155,962
Other comprehensive income		–	–	–	–	–	(10,454)	(10,454)
Total comprehensive income		–	–	–	–	155,962	(10,454)	145,508
Dividend declared in respect of the current year	13(a)(i)	–	–	–	–	(261,473)	–	(261,473)
Equity-settled share-based transactions	13(d)	–	–	4,133	–	–	–	4,133
Balance at 31 August 2018		101	–	35,813	596,420	413,383	(8,805)	1,036,912
Balance at 1 September 2018		**101**	**-**	**35,813**	**596,420**	**413,383**	**(8,805)**	**1,036,912**
Impact on initial application of HKFRS 15	2	**-**	**-**	**-**	**-**	**368,256**	**-**	**368,256**
Adjusted balance at 1 September 2018		**101**	**-**	**35,813**	**596,420**	**781,639**	**(8,805)**	**1,405,168**
Changes in equity for the six months ended 28 February 2019:								
Profit for the period		**-**	**-**	**-**	**-**	**199,445**	**-**	**199,445**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**3,515**	**3,515**
Total comprehensive income		**-**	**-**	**-**	**-**	**199,445**	**3,515**	**202,960**
Dividend approved in respect of the previous year	13(a)(ii)	**-**	**-**	**-**	**-**	**(301,700)**	**-**	**(301,700)**
Equity-settled share-based transactions	13(d)	**-**	**-**	**1,434**	**-**	**-**	**-**	**1,434**
Balance at 28 February 2019		**101**	**-**	**37,247**	**596,420**	**679,384**	**(5,290)**	**1,307,862**

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 September 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 55 to 77 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 28 February 2019 — unaudited
(Expressed in Hong Kong dollars)

	Six months ended	
	28 February 2019 $'000	28 February 2018 $'000
Operating activities		
Cash generated from operations	**632,229**	563,923
Hong Kong Profits Tax paid	**(111,512)**	(111,177)
Tax paid outside Hong Kong	**(2,625)**	(2,330)
Net cash generated from operating activities	**518,092**	450,416
Investing activities		
Payment for purchase of property, plant and equipment	**(187,805)**	(188,898)
Payment for purchase of investment properties	**(191,431)**	–
Proceeds from sale of property, plant and equipment	**1,353**	926
Payment for contingent consideration	**(8,329)**	(8,183)
Payment for acquisition of a subsidiary	**(296,390)**	–
Other cash flows arising from investing activities	**1,504**	703
Net cash used in investing activities	**(681,098)**	(195,452)
Financing activities		
Proceeds from bank loans, net of transaction costs	**774,365**	–
Repayment of bank loans	**(200,000)**	–
Interest paid on interest-rate swaps	**(3,428)**	(6,297)
Interest paid on bank loans	**(59,807)**	(44,889)
Dividend paid	**(301,700)**	(231,303)
Net cash generated from/(used in) financing activities	**209,430**	(282,489)
Net increase/(decrease) in cash and cash equivalents	**46,424**	(27,525)
Cash and cash equivalents at the beginning of the period	**373,293**	385,052
Effect of foreign exchange rate changes	**1,157**	972
Cash and cash equivalents at the end of the period	**420,874**	358,499

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 September 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 55 to 77 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report of HKBN Ltd. (the "Company") and its subsidiaries (together the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 30 April 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements of the Group for the year ended 31 August 2018, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 August 2018. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 48.

2 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (continued)

(a) Overview (continued)

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition, allocation of transaction price, capitalisation of contract costs, and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 15 as an adjustment to the opening balance of equity at 1 September 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 15:

	At 31 August 2018 $'000	Impact on initial application of HKFRS 15 (Note 2(c)) $'000	At 1 September 2018 $'000
Customer acquisition and retention costs	–	433,755	433,755
Total non-current assets	**5,626,776**	**433,755**	**6,060,531**
Contract assets	–	150,949	150,949
Other receivables, deposits and prepayments	292,646	(150,949)	141,697
Total current assets	**954,397**	**–**	**954,397**
Contract liabilities — current portion	–	(98,653)	(98,653)
Deferred services revenue — current portion	(98,653)	98,653	–
Total current liabilities	**(915,318)**	**–**	**(915,318)**
Net current assets	**39,079**	**–**	**39,079**
Total assets less current liabilities	**5,665,855**	**433,755**	**6,099,610**
Contract liabilities — long-term portion	–	(79,371)	(79,371)
Deferred services revenue — long-term portion	(79,371)	79,371	–
Deferred tax liabilities	(408,431)	(65,499)	(473,930)
Total non-current liabilities	**(4,628,943)**	**(65,499)**	**(4,694,442)**
Net assets	**1,036,912**	**368,256**	**1,405,168**
Reserves	1,036,811	368,256	1,405,067
Total equity	**1,036,912**	**368,256**	**1,405,168**

Further details of these changes are set out in sub-sections (b) and (c) of this note.

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 September 2018 in accordance with the transition requirements. The Group has concluded that the initial adoption of HKFRS 9 had no impact on opening balance of equity at 1 September 2018.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9, *Financial instruments* (continued)

Details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Except for (i) other receivables, deposits and prepayments of $150,949,000 were reclassified to contract assets at 1 September 2018 and (ii) deferred services revenue of $178,024,000 were reclassified to contract liabilities at 1 September 2018 as a result of the initial application of HKFRS 15 (see note 2(c)), the measurement categories for all financial assets and financial liabilities of the Group remain the same.

The carrying amounts for all financial assets and financial liabilities at 1 September 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 September 2018.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, deposits and prepayments) and contract assets as defined in HKFRS 15 (see note 2(c)).

Financial assets measured at fair value, including derivative financial assets, are not subject to the ECL assessment.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9, *Financial instruments* (continued)

(ii) Credit losses (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— trade receivables, other receivables, deposits and prepayments and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Groups' historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9, *Financial instruments* (continued)

(ii) Credit losses (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9, *Financial instruments* (continued)

(ii) Credit losses (continued)

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Impact of the ECL model

The adoption of the ECL model under HKFRS 9 does not have material impact on the carrying amounts of the Group's financial assets as at 1 September 2018.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (continued)

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance equity at 1 September 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 September 2018.

The following table summarises the impact of transition to HKFRS 15 on retained profits and the related tax impact at 1 September 2018:

	$'000
Retained profits	
Capitalisation of contract costs	433,755
Related tax	(65,499)
Net increase in retained earnings at 1 September 2018	368,256

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition and selling price allocation for multiple element sale contracts

The adoption of HKFRS 15 mainly affects the accounting treatment of the Group's sale contracts with customers in which the Group has multiple performance obligations to customers, such as provision of telecommunication services, sale of products and gifts offered in the contracts.

Previously, revenue from sale of products and gifts offered in the contracts was generally recognised at a point in time when the risks and rewards of ownership of the products had passed to the customers. Residual value method was used to determine the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

Under HKFRS 15, the total transaction price receivable from customers in multiple element sale contracts is allocated among all identified performance obligations of the Group in proportion to their respective stand-alone selling price.

Accordingly, although the total revenue being recognised for a multiple element sale contract over the contract period is unchanged, the amount and timing of revenue recognition for individual performance obligations would be different after the adoption of HKFRS 15. The revenue being allocated to products and gifts is recognised upon the delivery to customers, which is generally upfront upon entering into the sale contracts. The revenue allocated to telecommunications and other services is recognised when services are rendered, which is generally over the contract period.

This change in accounting policy had no material impact on opening balances as at 1 September 2018. However, in future periods it may have a material impact, depending on the amount and timing of revenue recognition for individual performance obligations of the Group's multiple element sale contracts.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (continued)

(c) HKFRS 15, *Revenue from contracts with customers* (continued)

(ii) Capitalisation of contract costs

The Group previously recognised (i) customer acquisition costs and (ii) customer retention costs as other operating expenses when they were incurred. Under HKFRS 15, the Group is required to capitalise these customer acquisition and retention costs when they are incremental and are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the customer acquisition and retention costs can be expensed when incurred. Capitalised customer acquisition and retention costs are charged to profit or loss when the revenue from the related revenue is recognised and are included as costs of sales and services at that time.

As a result of this change in accounting policy, the Group has made adjustments to opening balances at 1 September 2018 which increased customer acquisition and retention costs by $433,755,000, increased deferred tax liabilities by $65,499,000 and increased retained profits by $368,256,000.

(iii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances were presented in the consolidated statement of financial position under "other receivables, deposits and prepayments" and "deferred services revenue" respectively.

To reflect these changes in presentation, the Group has made the following adjustments at 1 September 2018, as a result of the adoption of HKFRS 15:

A. Amount of $150,949,000 which was previously included in other receivables, deposits and prepayments is now included under contract assets;

B. Amount of $98,653,000 which was previously included in deferred services revenue — current portion is now included under contract liabilities-current portion; and

C. Amount of $79,371,000 which was previously included in deferred services revenue — long-term portion is now included under contract liabilities-long-term portion.

(d) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial results of the Group.

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group's management assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily the operation of fixed telecommunications network services. Therefore, management considers there is only one operating segment under the requirements of HKFRS 8, *Operating Segments*. In this regard, no segment information is presented.

No geographic information is shown as the revenue and profit from operations of the Group are primarily derived from its activities in Hong Kong.

4 REVENUE

The principal activities of the Group are provision of fixed telecommunications network services, international telecommunications services and mobile services to residential and enterprise customers in Hong Kong and product sales.

Revenue represents revenue from fixed telecommunications network services. international telecommunications services and mobile services to residential and enterprise customers in Hong Kong and product sales.

Disaggregation of revenue from contracts with customers within the scope of HKFRS 15 by major categories is as follows:

	Six months ended	
	28 February 2019 $'000	28 February 2018 $'000
Residential revenue	**1,223,102**	1,101,411
Enterprise revenue	**785,612**	679,200
Product revenue	**209,877**	87,484
	2,218,591	1,868,095

The Group's customer base is diversified and no individual customer with whom transactions have exceeded 10% of the Group's revenue.

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 28 February 2019 $'000	28 February 2018 $'000
(a) Other net income		
Interest income	**(1,504)**	(704)
Net foreign exchange loss	**2,641**	4,959
Amortisation of obligations under granting of rights	**(4,512)**	(4,512)
Change in fair value of contingent consideration	**166**	233
Other income	**(7,535)**	(8,225)
	(10,744)	(8,249)
(b) Other operating expenses		
Advertising and marketing expenses	**189,844**	289,565
Amortisation of customer acquisition and retention costs	**107,858**	–
Depreciation	**214,040**	214,686
Loss on disposal of property, plant and equipment, net	**21**	27
Impairment losses on trade receivables	**21,305**	24,393
Talents costs (note 5(c))	**263,557**	234,896
Amortisation of intangible assets	**61,741**	60,890
Transactions costs in connection with business combination	**1,598**	–
Others	**199,679**	191,051
	1,059,643	1,015,508
(c) Talent costs		
Salaries, wages and other benefits	**466,010**	432,490
Contributions to defined contribution retirement plan	**30,853**	29,066
Equity-settled share-based payment expenses	**1,434**	4,488
Cash-settled share-based payment expenses	**346**	512
	498,643	466,556
Less: Talent costs capitalised as property, plant and equipment	**(16,309)**	(15,803)
Talent costs included in advertising and marketing expenses and amortisation of customer acquisition and retention costs	**(218,777)**	(215,857)
	263,557	234,896

Talent costs include all compensation and benefits paid to and accrued for all individuals employed by the Group, including directors.

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION (continued)

Profit before taxation is arrived at after charging/(crediting): (continued)

	Six months ended 28 February 2019 $'000	Six months ended 28 February 2018 $'000
(d) Finance costs		
Interest on bank loans	**63,431**	61,150
Interest on interest-rate swaps, net	**3,428**	6,297
Fair value loss/(gain) on interest-rate swaps	**20,119**	(40,378)
	86,978	27,069
(e) Other items		
Amortisation of intangible assets	**96,067**	90,104
Operating lease charges in respect of land and buildings: minimum lease payments	**30,989**	28,786
Operating lease charges in respect of telecommunications facilities and computer equipment: minimum lease payments	**142,734**	124,950
Research and development costs	**13,638**	10,014
Cost of inventories	**199,314**	82,228

6 INCOME TAX

	Six months ended 28 February 2019 $'000	Six months ended 28 February 2018 $'000
Current tax — Hong Kong Profits Tax	**75,335**	69,947
Current tax — Outside Hong Kong	**2,554**	2,265
Deferred tax	**(28,360)**	(25,066)
	49,529	47,146

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 28 February 2018: 16.5%) of the estimated assessable profits for the six months ended 28 February 2019.

Income tax expense for the current taxation outside Hong Kong is mainly related to the income tax in the People's Republic of China (the "PRC") and is similarly calculated using the estimated annual effective rate of taxation that is expected to be applicable in the PRC.

(Expressed in Hong Kong dollars unless otherwise indicated)

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $199,445,000 (six months ended 28 February 2018: $240,935,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,003,590,000 ordinary shares (six months ended 28 February 2018: 1,001,800,000 ordinary shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $199,445,000 (six months ended 28 February 2018: $240,935,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II after adjusting for the dilutive effect of the Company's Co-Ownership Plan II, calculated as follows:

	Six months ended	
	28 February 2019 '000	28 February 2018 '000
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,003,590**	1,001,800
Effect of the Co-Ownership Plan II	**1,120**	2,095
Weighted average number of ordinary shares (diluted)	**1,004,710**	1,003,895

8 INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 28 February 2019, the Group's additions of investment properties and property, plant and equipment with a cost of $230,251,000 and $496,794,000 respectively (six months ended 28 February 2018: $Nil and $181,882,000 respectively), which included an amount of $329,295,000 (six months ended 28 February 2018: $Nil) acquired through acquisition of a subsidiary.

During the six months ended 28 February 2019, the Group disposed of certain property, plant and equipment with a net book value of $1,374,000 (six months ended 28 February 2018: $953,000), resulting in a loss on disposal of $21,000 (six months ended 28 February 2018: loss on disposal of $27,000).

9 TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	At 28 February 2019 $'000	At 31 August 2018 $'000
Within 30 days	**135,906**	117,261
31 to 60 days	**49,406**	52,844
61 to 90 days	**30,183**	25,968
Over 90 days	**115,449**	51,137
Trade receivables, net of loss allowance	**330,944**	247,210
Other receivables, deposits and prepayments	**113,298**	292,646
	444,242	539,856

The majority of the Group's trade receivable is due within 30 days from the date of billing. Subscribers with receivable that are more than 3 months overdue are requested to settle all outstanding balances before further credit is granted.

Other receivables, deposits and prepayments consist of rental deposit, interest receivable, unbilled revenue, prepayments and other receivables. All of the other receivables, except for rental deposits and other receivables amounted to $19,620,000 (31 August 2018: $18,002,000), are expected to be recovered or recognised as expenses within one year.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement comprise:

	At 28 February 2019 $'000	At 31 August 2018 $'000
Cash at bank and in hand	**420,874**	373,293

(Expressed in Hong Kong dollars unless otherwise indicated)

11 TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	At 28 February 2019 $'000	At 31 August 2018 $'000
Within 30 days	**110,448**	46,123
31 to 60 days	**23,689**	9,786
61 to 90 days	**35,313**	31,038
Over 90 days	**126,225**	51,971
	295,675	138,918
Trade payables	**295,675**	138,918
Other payables and accrued charges		
— Current portion	**412,874**	461,373
— Long-term portion	**178,272**	201,266
	886,821	801,557

The amount of the interest-rate swap included in other payables and accrued charge is $8,095,000 (2018: $Nil).

12 BANK LOANS

(a) The analysis of the carrying amount of bank loans is as follows:

	At 28 February 2019 $'000	At 31 August 2018 $'000
Non-current liabilities		
Long-term bank loans	**4,451,057**	3,873,716

(b) As at 28 February 2019, the bank loans were repayable as follows:

	At 28 February 2019 $'000	At 31 August 2018 $'000
Bank loans (unsecured)		
Within 1 year or on demand	**–**	–
After 1 year but within 2 years	**–**	–
After 2 years but within 5 years	**4,451,057**	3,873,716
	4,451,057	3,873,716

12 BANK LOANS (continued)

On 21 November 2016, the Group entered into term and revolving credit facilities agreement of $4,100,000,000 in aggregate with various international banks and drawn down a bank loan with a principal amount of $3,900,000,000 at Hong Kong Interbank Offered Rate ("HIBOR") plus a margin of 1.05% per annum payable monthly. The loan is unsecured and covered by a cross guarantee arrangement issued by the Company, MLCL, HKBNGL and HKBN, and repayable in full upon maturity on 28 November 2021.

On 18 September 2018, the Group drawn down the revolving credit facilities of $200,000,000 at HIBOR plus a margin of 1.05% per annum payable monthly. The facilities were fully repaid on October 2018.

On 10 October 2018, HKBN entered into a facility agreement with Hang Seng Bank Limited for a five-year term loan of $580,000,000 that bears interest at HIBOR plus a margin per annum. The facility was fully utilised on 11 October 2018. The loan is unsecured and covered by a cross guarantee arrangement issued by the Company, MLCL, HKBNGL and HKBN, and repayable in full upon maturity on 10 October 2023.

The bank loans are recognised initially at fair value less attributable transactions costs. Subsequent to initial recognition, the bank loans are stated at amortised cost with any difference between the amount initially recognised and interest payable using the effective interest method.

To calculate the effective interest in each reporting period, the effective interest rate is applied to the amortised cost of the bank loan at the end of the previous reporting period.

The effective interest rate of the bank loans as of 28 February 2019 is 2.64% per annum (2018: 3.21%).

13 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

As at 28 February 2019, 3,800,000,000 ordinary shares, with par value of $0.01 cent each, were authorised for issue. As at 28 February 2019, the Company had 1,005,666,666 (28 February 2018: 1,005,666,666) ordinary shares in issue. Upon closing of the WTT Merger as referred to in note 19, 305,932,690 new ordinary shares were issued on 30 April 2019. As at the date of this interim financial report, there are in total 1,311,599,356 issued ordinary shares in the share capital of the Company.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

	Six months ended 28 February 2019 $'000	28 February 2018 $'000
Interim dividend declared after the interim period of 34 cents per ordinary share (six months ended 28 February 2018: 26 cents per ordinary share) (Note)	**445,944**	261,473

Note: The amount of 2019 proposed interim dividend is based on the 1,311,599,356 (six months ended 28 February 2018: 1,005,666,666) ordinary shares in issue as at the date of this interim financial report.

The proposed interim dividend declared has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 28 February 2019 $'000	28 February 2018 $'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 30 cents per ordinary share (six months ended 28 February 2018: 23 cents per ordinary share)	**301,700**	231,303

(c) Other reserve

The entire issued share capital of MLCL was transferred to the Company in consideration for an issue of the Company's share to Metropolitan Light Holdings Limited on 17 February 2015 (the "Share Transfer"). Upon completion of the Share Transfer, the Company became the holding company of the Group, and the combined share capital and share premium prior to the Share Transfer, amounting to $8,000 and $1,757,197,000 respectively, were eliminated against the investment in MLCL with a carrying amount of $1,160,785,000. The remaining balance of $596,420,000 was recorded in the other reserve.

13 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Equity-settled share-based transactions

On 21 February 2015, the Company adopted the Co-Ownership Plan II (the "Plan") and granted RSUs to directors and talents of the Group in Hong Kong. The purpose of the Plan is to attract, retain and motivate skilled and experienced talents of the Group. The RSUs are the contingent rights to receive the Company's shares at the relevant matching ratio in respect of any shares purchased by the talents, subject to certain terms, conditions and undertakings. The share are held on trust by the appointed trustee until their release to the beneficiaries upon the vesting of the RSUs.

On 29 June 2015 and 18 August 2015, 2,723,000 RSUs and 133,000 RSUs were granted to directors and talents of the Group in Hong Kong by the Company under the Plan respectively. The directors estimated the weighted average fair value of each RSU at the grant date to be $8.50.

On 20 November 2015, 159,000 RSUs were granted to talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU at the grant date to be $10.28.

On 20 June 2016, 2,081,000 RSUs were granted to directors and Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU of the grant date to be $8.10.

On 24 January 2017, 258,000 RSUs were granted to directors and Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU of the grant date to be $8.35.

On 20 July 2017, 253,000 RSUs were granted to Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU of grant date to be $7.20.

On 30 January 2019, 329,000 RSUs were granted to Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU of grant date to be $8.90.

On 26 February 2019, 31,000 RSUs were granted to Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU of grant date to be $8.53.

The shares are held on trust by the appointed trustee until their release to the beneficiaries upon the vesting of the RSUs. 25%, 25% and 50% of these RSUs will vest on the first, second and third anniversary of the grant date respectively.

A total of 78,932 (2018: 102,726) shares were vested during the six months ended 28 February 2019.

(Expressed in Hong Kong dollars unless otherwise indicated)

14 ACQUISITION OF A SUBSIDIARY

On 26 September 2018 ("Acquisition Date"), HKBNGL, (an indirect wholly-owned subsidiary of the Company), acquired the entire interest of CTL which is principally engaged in property investment in Hong Kong at a cash consideration of $329,219,000.

The CTL Acquisition would help the Group to secure the location site of its own network centres, which save future rental expenses and avoid the need for relocation.

The major assets of CTL are property, plant and equipment which are leased by the Group, and accordingly, the transaction has been accounted as the acquisition of assets.

The following table summarises the consideration paid for CTL, the fair values of assets acquired and liabilities assumed at the Acquisition Date.

	$'000
Cash consideration	329,219
Identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	329,295
Prepayments, deposits and other receivables	439
Trade receivables	631
Other payables and accruals	(132)
Deferred tax liabilities	(1,014)
Total identifiable net assets	329,219

An analysis of net cash outflow in respect of the Acquisition is as follows:

Total consideration	329,219
Deposits paid as at 31 August 2018	(32,829)
Net cash outflow in respect of the Acquisition for the period ended 28 February 2019	296,390

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 28 February 2019	**Fair value measurement as at 28 February 2019 categorised into**		
		Level 1	**Level 2**	**Level 3**
	$'000	**$'000**	**$'000**	**$'000**
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instrument				
— Interest-rate swap	**8,095**	**–**	**8,095**	**–**
Contingent consideration	**36,131**	**–**	**–**	**36,131**

	Fair value at 31 August 2018	Fair value measurement as at 31 August 2018 categorised into		
		Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
Recurring fair value measurement				
Financial assets:				
Derivative financial instrument				
— Interest-rate swap	12,024	–	12,024	–
Financial liabilities:				
Contingent consideration	44,294	–	–	44,294

During the six months ended 28 February 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: $Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Valuation techniques and inputs used in Level 2 fair value measurement

The fair value of interest-rate swap is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparty.

(Expressed in Hong Kong dollars unless otherwise indicated)

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

(a) Financial liabilities measured at fair value (continued)

(iii) Information about Level 3 fair value measurement

The fair value of the contingent consideration relating to Concord acquisition and ICG acquisition as at 28 February 2019 are determined considering the expected payment, discounted to present value using a risk-adjusted discount rate of 3.6% (2018: 3.6%) and 15.9% (2018: 15.9%) respectively.

The movement during the period in the balance of Level 3 fair value measurement is as follows:

	At 28 February 2019 $'000	At 31 August 2018 $'000
Contingent consideration		
At the beginning of the period/year	**44,294**	30,358
Acquisition of subsidiaries	**–**	32,823
Settlement of contingent consideration for the period/year	**(8,329)**	(19,324)
Change in fair value during the period/year	**166**	437
At the end of the period/year	**36,131**	44,294
Contingent consideration — current portion	**3,308**	18,597
Contingent consideration — long-term portion	**32,823**	25,697
Total contingent consideration	**36,131**	44,294

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 28 February 2019 and 31 August 2018.

16 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

At 28 February 2019, the Group had the following capital commitments:

	At 28 February 2019 $'000	At 31 August 2018 $'000
Contracted but not provided for		
— Purchase of property, plant and equipment	**153,626**	326,270
— For an acquisition	**–**	296,390
	153,626	622,660

(Expressed in Hong Kong dollars unless otherwise indicated)

17 CONTINGENT LIABILITIES

	At 28 February 2019 $'000	At 31 August 2018 $'000
Bank guarantees	**7,105**	7,105

At 28 February 2019 and 31 August 2018, the directors did not consider it is probable that a claim will be made against the Group under any guarantees. The Group has assessed the fair value of the above guarantees and does not consider it to be material. It has therefore not been recognised in the consolidated statement of financial position.

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

18 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company, is as follows:

	Six months ended 28 February 2019 $'000	28 February 2018 $'000
Short-term employee benefits	**20,771**	17,795
Post-employment benefits	**1,388**	1,266
Equity compensation benefits	**328**	451
	22,487	19,512

(Expressed in Hong Kong dollars unless otherwise indicated)

19 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 7 August 2018, MLCL (a wholly owned subsidiary of the Company), TPG Wireman and Twin Holding entered into the Merger Agreement, pursuant to which, MLCL conditionally agreed to purchase, and TPG Wireman and Twin Holding conditionally agreed to sell, the entire issued share capital in WTT Holding Corp at the consideration of $5,489,756,860, of which (i) $3,548,819,204 would be satisfied by allotment and issuance of the Company's shares; and (ii) $1,940,937,656 would be satisfied by issuance of the vendor loan notes (the "Vendor Loan Notes") (the "WTT Merger"). The WTT Merger was completed on 30 April 2019.

On 30 April 2019, 305,932,690 new ordinary shares were issued and allotted at a price of $11.60 for each share and the Vendor Loan Notes with an aggregate principal amount of $1,940,937,656 were issued by the Company.

The Vendor Loan Notes are zero coupon convertible notes which may be converted into new ordinary shares to be issued by the Company at the initial conversion price of $11.60 per share pursuant to the terms and conditions of the Vendor Loan Notes. The Vendor Loan Notes has no maturity date and the holders of the Vendor Loan Notes have the right to receive an amount equal to any dividends made by the Company on an as-converted basis. As of the date of this interim report and based on the initial conversion price, the Vendor Loan Notes are convertible into 167,322,212 ordinary shares in the Company. As a result, based on the terms and conditions of the Vendor Loan Notes, the holders of Vendor Loan Notes were entitled to receive a cash amount payable by the Company equal to $56,889,552 based on the 34 cents interim dividend per ordinary share declared by the Company for the six months ended on 28 February 2019, as if the holders of the Vendor Loan Notes were holders of 167,322,212 ordinary shares in the Company as of the record date for such interim dividend. Such cash amount will be paid by the Company to the holders of Vendor Loan Notes on 29 May 2019, being the date on which the 2019 interim dividend will be paid by the Company. In addition, the completion of the WTT Merger also changed significantly the number of ordinary shares at the end of the period if the WTT Merger had occurred before the end of the reporting period, and therefore, reducing the earnings per share for the period.

Details of the WTT Merger can be referred to the circular published by the Company on 26 October 2018. The initial accounting for the business combination is incomplete when the interim financial report is authorised for issue, and the effect of the WTT Merger is being evaluated for the impact that it will have on the Group's result of operations and financial position.

The WTT Merger is to be accounted for as a business combination in accordance with HKFRS 3, *Business Combinations*. Up to the approval date of this interim financial report, the directors are still in the process of determining the fair values of the net identifiable assets of WTT Holding Corp and it's subsidiaries.

20 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 September 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

21 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

A number of amendments and new standards are effective for annual periods beginning after 1 September 2019 and earlier application is permitted. Except for the amendments to HKFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as HKFRS 9 (see note 2(b)), the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, *Lease*, which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16, *Leases*

As disclosed in the 2018 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of properties and other items which are currently classified as operating leases.

Upon the initial adoption of HKFRS 16 at 1 September 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16.

Other Information

Directors' and Chief Executives' Interests in Securities

As at 28 February 2019, the Directors and chief executives of the Company had the following interests and short positions in the shares, underlying shares (in respect of positions held pursuant to equity derivatives), and debentures of the Company and its associated corporations (within the meaning of Part XV of the "Securities and Futures Ordinance" (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) were otherwise required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

Long Position

Ordinary shares of $0.0001 each in the Company

Name of Director		Number of shares held	Number of underlying shares held under equity derivatives (Note 1)	Total number of shares held	Percentage of the issued share capital of the Company
Mr. Bradley Jay HORWITZ	(Note 2)	450,000	–	450,000	0.04%
Mr. Chu Kwong YEUNG	(Note 3)	26,989,149	97,278	27,086,427	2.69%
Mr. Ni Quiaque LAI	(Note 4)	32,930,001	67,121	32,997,122	3.28%

Notes:

1. *These represent the number of restricted share units (the "RSU") which will be vested in such Directors under the Co-Ownership Plan II adopted by the Company on 21 February 2015.*
2. *Mr. Bradley Jay HORWITZ is personally interested in 450,000 ordinary shares.*
3. *Among 27,086,427 ordinary shares which Mr. Chu Kwong YEUNG are personally interested in 97,278 RSUs that were granted to him pursuant to the Co-Ownership Plan II adopted by the Company on 21 February 2015, which were subject to certain vesting conditions, remained unvested.*
4. *Among 32,997,122 ordinary shares which Mr. Ni Quiaque LAI are personally interested in 67,121 RSUs that were granted to him pursuant to the Co-Ownership Plan II adopted by the Company on 21 February 2015, which were subject to certain vesting conditions, remained unvested.*

Other than the interests disclosed above, none of the Directors nor the chief executives nor their associates had any interests or short positions in any shares, underlying shares (in respect of positions held pursuant to equity derivatives) or debentures of the Company or any of its associated corporations as at 28 February 2019.

Share Incentive Scheme

Co-Ownership Plan II

To attract, retain and motivate skilled and experienced Talents, the Company adopted the Co-Ownership Plan II on 21 February 2015. Under the Co-Ownership Plan II, the Board of Directors (the "Board") may, in its absolute discretion, invite participants to purchase shares of the Company and agree to grant them a contingent right to receive shares (i.e. RSU) at the relevant matching ratio in respect of any shares purchased, subject to certain terms, conditions and undertakings. The total number of shares that may underlie the RSUs granted pursuant to the Co-Ownership Plan II shall be (i) 10% of the shares in issue on 12 March 2015 (the "Listing Date") or (ii) 10% or less of the shares in issue as at the date following the date of approval of the renewed limit (as the case may be). The Co-Ownership Plan II shall be valid and effective for the period commencing on the Listing Date and expiring on the tenth anniversary thereof or such earlier date as it is terminated in accordance with the terms of the Co-Ownership Plan II, after which period no further RSUs shall be offered or granted.

In order to enable the Co-Ownership Plan II trustee to release shares to participants upon vesting of each RSU, the Company allotted and issued, on the Listing Date, by way of capitalisation issue 5,666,666 ordinary shares to the Co-Ownership Plan II trustee. Such shares represented approximately 0.56% of the total issued share capital of the Company on the Listing Date. The Co-Ownership Plan II trustee will hold such shares on trust until their release to participants upon vesting of the RSUs.

Details of movements of the Co-Ownership Plan II during 1H2019 are as follows:

		Number of RSUs									
								To be vested on 24 January/30 January/26 February/ 20 June/20 July (As at 28 February 2019)			
Participants	Date of grant	Granted	As at 1 September 2018	Granted during the period	Forfeited during the period	Vested during the period	As at 28 February 2019	2019	2020	2021	2022
Other Participants	20 November 2015	158,567	3,239	–	–	3,239	–	–	–	–	–
Mr. Chu Kwong YEUNG*	20 June 2016	194,556	97,278	–	–	–	97,278	97,278	–	–	–
Mr. Ni Quiaque LAI*	20 June 2016	134,241	67,121	–	–	–	67,121	67,121	–	–	–
Other Participants	20 June 2016	1,752,685	705,543	–	48,472	–	657,071	657,071	–	–	–
Other Participants	24 January 2017	400,472	263,190	–	36,059	75,693	151,438	–	151,438	–	–
Other Participants	20 July 2017	252,635	166,814	–	–	–	166,814	55,599	111,215	–	–
Other Participants	30 January 2019	329,330	–	329,330	–	–	329,330	–	82,315	82,315	164,700
Other Participants	26 February 2019	126,410	–	126,410	–	–	126,410	–	31,591	31,591	63,228
Total		**3,348,896**	**1,303,185**	**455,740**	**84,531**	**78,932**	**1,595,462**	**877,069**	**376,559**	**113,906**	**227,928**

** Director of the Company*

Arrangements to Purchase Shares or Debentures

Save as disclosed in the "Share Incentive Scheme" above, at no time during 1H2019 was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Interests of Substantial Shareholders

As at 28 February 2019, to the best knowledge of the Directors and chief executives of the Company, the following persons (other than any Directors or chief executives of the Company) were substantial shareholders, had notified the Company of their relevant interests in shares and underlying shares (in respect of positions held pursuant to equity derivatives) representing 5% or more of the issued share capital of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO:

Long Position

Ordinary shares of $0.0001 each in the Company

Name of shareholder	Note	Number of ordinary shares beneficially held	Percentage of the issued voting shares of the Company
Canada Pension Plan Investment Board	(a)	182,405,000	18.14%
GIC Private Limited	(b)	87,284,797	8.68%
The Capital Group Companies, Inc.	(c)	99,798,000	9.92%
Matthews International Capital Management, LLC	(d)	70,914,908	7.05%
Bonderman David	(e)	236,627,451	23.53%
Coulter James George	(e)	236,627,451	23.53%
Kim Michael ByungJu	(f)	236,627,451	23.53%
Kong Teck Chien	(f)	236,627,451	23.53%
MBK GP III, Inc.	(f)	236,627,451	23.53%
MBK Partners Fund III, L.P.	(f)	236,627,451	23.53%
MBK Partners GP III, L.P.	(f)	236,627,451	23.53%
MBK Partners JC GP, Inc.	(f)	236,627,451	23.53%
MBK Partners JC GP, L.P.	(f)	236,627,451	23.53%
MBK Partners JC, L.P.	(f)	236,627,451	23.53%
TPG Asia Advisors VI, Inc.	(e)	236,627,451	23.53%
TPG Wireman, L.P.	(e)	236,627,451	23.53%
Twin Holding Ltd	(f)	236,627,451	23.53%

Notes:

(a) Canada Pension Plan Investment Board is the beneficial owner of 182,405,000 ordinary shares of the Company.

(b) 87,284,797 ordinary shares are held by GIC Private Limited in the capacity of investment manager.

(c) The Capital Group Companies, Inc. through its subsidiaries, namely Capital International, Inc., Capital International Sarl, and Capital Research and Management Company held 4,139,000 ordinary shares, 6,560,000 ordinary shares, and 89,099,000 ordinary shares in the Company respectively, and is accordingly deemed to be interested in the respective ordinary shares held by the aforesaid companies.

(d) 70,914,908 ordinary shares are controlled by Matthews International Capital Management, LLC in the capacity of investment manager.

(e) *As at 28 February 2019, each of these persons is deemed to be interested in 236,627,451 ordinary shares in the Company through: (i) TPG Wireman, L.P.'s deemed interest in 152,966,345 ordinary shares in the Company to be allotted and issued by the Company to TPG Wireman, L.P. as consideration shares upon completion of the WTT Merger pursuant to the terms and conditions of the Merger Agreement; and (ii) TPG Wireman, L.P.'s proposed subscription of the vendor loan notes to be issued by the Company to TPG Wireman, L.P. upon (1) completion of the WTT Merger and (2) the full exercise of which will be convertible into 83,661,106 new ordinary shares to be allotted and issued by the Company to TPG Wireman, L.P. at the initial conversion price of $11.60 per ordinary share (subject to the detailed terms and conditions of such vendor loan notes). Each of Mr. David Bonderman and Mr. James George Coulter, each being an indirect controller of TPG Wireman, L.P. under Part XV of the SFO, is also deemed to be interested in the same number of ordinary shares in the Company which TPG Wireman, L.P. is deemed to be interested in.*

(f) *As at 28 February 2019, each of these persons is deemed to be interested in 236,627,451 ordinary shares in the Company through: (i) Twin Holding Ltd's deemed interest in 152,966,345 ordinary shares in the Company to be allotted and issued by the Company to Twin Holding Ltd as consideration shares upon completion of the WTT Merger pursuant to the terms and conditions of the Merger Agreement; and (ii) Twin Holding Ltd's proposed subscription of the vendor loan notes to be issued by the Company to Twin Holding Ltd upon (1) completion of the WTT Merger and (2) the full exercise of which will be convertible into 83,661,106 new ordinary shares to be allotted and issued by the Company to Twin Holding Ltd at the initial conversion price of $11.60 per ordinary share (subject to the detailed terms and conditions of such vendor loan notes). Each of Mr. Michael ByungJu Kim and Mr. Teck Chien Kong, each being an indirect controller of Twin Holding Ltd under Part XV of the SFO, is also deemed to be interested in the same number of ordinary shares in the Company which Twin Holding Ltd is deemed to be interested in.*

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares (in respect of positions held pursuant to equity derivatives) of the Company as at 28 February 2019.

Purchase, Sale or Redemption of the Company's Listed Securities

During 1H2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

Interim Dividend

The Board has resolved to declare an interim dividend of 34 cents (28 February 2018: 26 cents) per share for 1H2019 to the shareholders whose names appear on the register of members of the Company on Monday, 20 May 2019. The interim dividend will be payable in cash on Wednesday, 29 May 2019.

The dividend policy of the Company is to pay dividends in an amount of not less than 90% of our Adjusted Free Cash Flow with an intention to pay 100% of our Adjusted Free Cash Flow in respect of the relevant year/period, after adjusting for potential debt repayment, if required. In respect of the 1,005,666,666 ordinary shares which were in issue immediately prior to closing of the WTT Merger, the Board has resolved that the interim dividend amount payable to holders of such shares will exceed 100% of Adjusted Free Cash Flow for 1H2019 due to full year tax payment paid in 1H2019.

In respect of the 305,932,690 new ordinary shares issued by the Company on 30 April 2019 upon closing of the WTT Merger, the Company intends to fund the interim dividend payable to holders of such new shares using the surplus cash resources of WTT.

Review of Interim Financial Information

The Audit Committee has reviewed with the management and the external auditor the unaudited interim results of the Group for 1H2019, the accounting principles and practices adopted by the Group, as well as discussion on auditing, internal control, risk management and financial reporting matters of the Group.

The unaudited interim financial report of the Group for 1H2019 has been reviewed by the Company's external auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA and reviewed by the Audit Committee of the Company.

Update on Director's Information under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors of the Company since the publication of the Company's 2018 annual report are set out below:

Mr. Yee Kwan Quinn LAW, the Independent Non-executive Director of the Company, has been appointed as the member of the Court of the Hong Kong University of Science and Technology on 4 October 2018. He has been also appointed as the Independent Non-executive Director of BOC Hong Kong (Holdings) Limited (stock code: 2388), a company which is listed on the Main Board of the Stock Exchange, on 13 March 2019. Mr. Law ceased to be the Deputy Chairman of Professional Conduct Committee of HKICPA on 31 December 2018.

Corporate Governance

The Company has complied with all the code provisions as set out in the "Corporate Governance Code and Corporate Governance Report" (the "CG Code") contained in Appendix 14 to the Listing Rules on the Stock Exchange throughout 1H2019 except for the following deviation:

Code Provision A.5.1 of the CG Code provides that the Nomination Committee should be chaired by the Chairman of the Board or an Independent Non-executive Director. However, the Nomination Committee of the Company is chaired by Mr. Chu Kwong YEUNG ("Mr. Yeung"), an Executive Director of the Company. By considering that each Independent Non-executive Director of the Company has been appointed as the Chairman of the Board, Audit Committee and Remuneration Committee respectively, the Board appointed Mr. Yeung as the Chairman of the Nomination Committee to make sure that each Director, especially the Independent Non-executive Directors could dedicate sufficient time to perform his role. Since Mr. Yeung is involved in the day-to-day management of the Company and can provide valuable insight on the suitability of a proposed Director, the Board considers that he is capable of assuming the responsibility of the Chairman of Nomination Committee by leading the process of identifying suitable candidates and making recommendations to the Board. As at 28 February 2019, the Nomination Committee comprises a majority of Independent Non-executive Directors, which ensures a balance of power and representation of Independent Non-executive Directors.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by Directors. Having made specific enquiries with all Directors, they confirmed that they have complied with the required standard as set out in the Model Code throughout 1H2019.

By order of the Board
HKBN Ltd.
Chairman
Bradley Jay HORWITZ

Hong Kong, 30 April 2019

Corporate Information

Chairman and Independent Non-executive Director

Mr. Bradley Jay HORWITZ [2,4]

Executive Directors

Mr. Chu Kwong YEUNG [3,6]
Mr. Ni Quiaque LAI

Non-executive Directors

Ms. Deborah Keiko ORIDA [4]
Mr. Zubin Jamshed IRANI [2,6] (appointed on 30 April 2019)
Mr. Teck Chien KONG [4] (appointed on 30 April 2019)

Independent Non-executive Directors

Mr. Stanley CHOW [2,4,5]
Mr. Yee Kwan Quinn LAW, SBS, JP [1,4,6]

1 Chairman of Audit Committee
2 Member of Audit Committee
3 Chairman of Nomination Committee
4 Member of Nomination Committee
5 Chairman of Remuneration Committee
6 Member of Remuneration Committee

Company Secretary

Mr. Yue Kit Andrew WONG

Authorised Representatives

Mr. Ni Quiaque LAI
Mr. Yue Kit Andrew WONG

Registered Office

P.O. Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

12th Floor, Trans Asia Centre
18 Kin Hong Street, Kwai Chung
New Territories
Hong Kong

Auditor

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Cayman Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
P.O. Box 1093
Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Citibank, N.A., Hong Kong Branch
50th Floor, Champion Tower
3 Garden Road, Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
3rd Floor, Standard Chartered Bank Building
4–4A Des Voeux Road Central
Hong Kong

Company's Website

www.hkbnltd.net

STOCK CODE

1310

Design, Production and Printing: REF Financial Press Limited www.ref.com.hk

HKBN Ltd.
香港寬頻有限公司