香港寬頻
HONG KONG BROADBAND NETWORK

HKBN Ltd.
香港寬頻有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code:1310

Stronger as ONE

Annual Report 2019

Stronger as ONE

For all businesses, change is constant. Every day, customers and markets are increasingly demanding more of it. At HKBN, we firmly believe that to succeed – and, yes, even survive – we must evolve relentlessly. Broader coverage. More innovation. The latest technologies. And with the digital world sprouting exciting new possibilities, we're delivering even better products, services and solutions to make daily life easier and doing business far more profitable.

To achieve all this, we've embraced an accelerated expansion of our expertise through corporate acquisitions – spurring change on the inside. By uniquely combining the elite strengths of past acquisitions and mergers - Y5Zone, NWT, ICG and WTT – and soon adding JOS to our bench (pending shareholders' approval), we have transformed our competitiveness and capabilities to create one united, stronger HKBN – ready to disrupt and lead the market.

JOS acquisition is subject to shareholders' approval

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.

Contents

Representing different facets of HKBN's integrated operations, Talents featured on cover: (From left)
Samuel Hui, Co-Owner and Head of Digital
Anita Chau, Director – Major Accounts, Enterprise Solutions
Will Chung, Senior Unit Manager – Customer Service, Residential Solutions
Jacky Lo, Co-Owner and Manager – Technical Service

Financial Performance

29% Revenue growth

EBITDA growth* 45%

30% Adjusted Free Cash Flow growth

Enterprise Revenue growth 69%

Community

Number of hours volunteered 2,676

412 Volunteers

Environment

15.69% Reduction of total carbon emissions in Hong Kong operations

Waste recovery rate 60.31% in Hong Kong operations

* *Year-on-year increase in the financial performance indicated above is based on the corresponding financial information reported in FY18 and FY19, where FY19 includes the operating results of WTT Holding Corp and its subsidiaries ("WTT Group") for the four months ended 31 August 2019.*

Customers

Network covers over
7,200
commercial buildings & facilities

Network covers
2.4 million homes

878,000
Residential broadband subscriptions

277,000
Activated mobile subscriptions (residential market)

103,000
Enterprise customers

35.8%
Market share of residential broadband services as of 30 June 2019

Talents

Over
330
Co-Owners (Co-Ownership Plan II)

Over
4,400 Talents

Total training hours provided
103,093

Driven by a
Passionate Pursuit of Purposeful Profits,
we strive to become Hong Kong's most preferred Information and Communications Technology ("ICT") solutions provider.

Since 1999, we have transformed from a fledgling start-up into one of Hong Kong's largest ICT solutions providers. Throughout this journey of incredible change, our goal has remained the same: give customers the best, most innovative and reliable service possible, delivered at highly competitive prices. This has allowed us to build long-lasting relationships as we continuously improve how customers live, learn, work and play.

At HKBN, we are innovators, managers, marketers, technologists, Co-Owners, mothers, husbands, sons, daughters and much more. While we wear many different hats, what we share in common is the love for the city we call home, our Hong Kong.

Whether it is connecting millions of Hong Kongers and thousands of businesses through a wide range of premier ICT solutions, or the efforts we undertake to empower self-sustenance for underprivileged communities, we greet each day as a chance to realise our Core Purpose: 'Make our Hong Kong a Better Place to Live'.

Purpose at HKBN

We believe the role of PURPOSE, when unleashed by more businesses, can have a transformative effect to make the world a better place. We actively encourage more people to realise a future where purpose becomes the driving factor for private business. At every possible occasion, we do our best to inspire different stakeholders to join this purposeful profit evolution.

Given the context of our Core Purpose, 'Make our Hong Kong a Better Place to Live', we believe HKBN's business is better served when we are PURPOSE + PROFIT driven rather than PROFIT-only focused. By no coincidence, this purpose functions as an integrated failsafe which guarantees that HKBN delivers the best of all possibilities for customers. As a result, our offerings always maintain an exceptional level of desirability, driving better uptake and better profits overall.

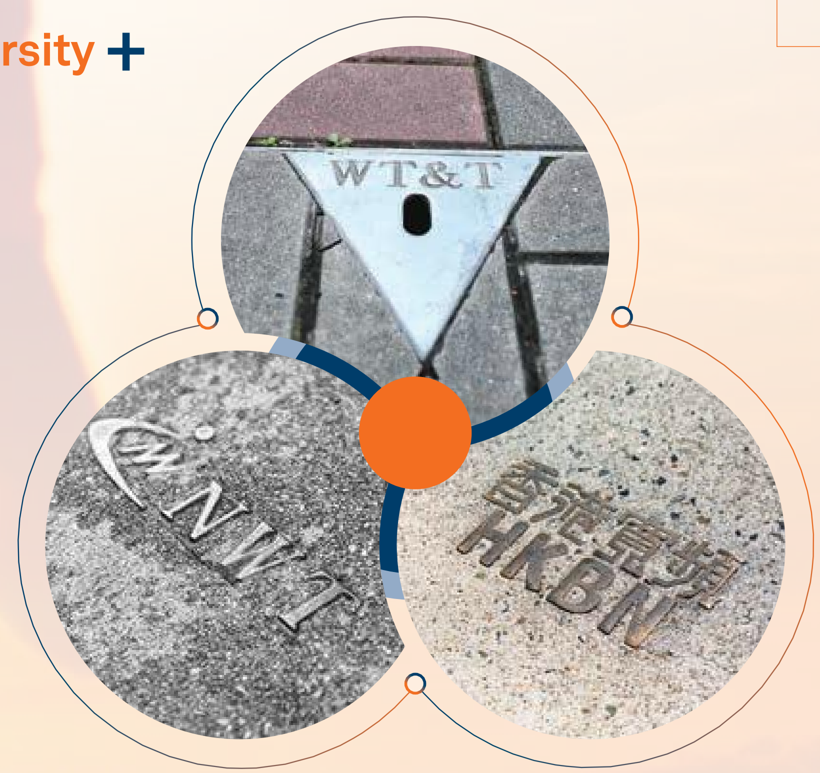
> "Make our Hong Kong a Better Place to Live"

From Telco to One-stop ICT Solutions Provider

Through past acquisitions* like Y5Zone (Wi-Fi specialist) in 2013, NWT (telecom and ICT service provider) in 2016, ICG (cloud specialist) in 2018, WTT (telecom and ICT service provider) in 2019 and, pending shareholders' approval, JOS (technology partner and system integrator), HKBN will evolve from a telco into a fully-fledged integrated one-stop ICT business. As a result, we're acquiring some of the most elite industry experts to augment our strengths and create new areas of specialisation. And in the past several months, our teams have worked extremely fast to integrate infrastructure, solutions, operations, and expertise for maximum competitive enhancement.

As the world changes, customers won't be content with just connectivity. They want possibilities – and more of it. Thanks to our enhanced Talent force and expanded scope of services, HKBN is armed to deliver far more. More innovation. More compelling value. We're on it! For enterprise customers in all industries, we're ready to change everything – empowering better possibilities via cutting-edge technology solutions, IT expertise, system integration capabilities and more – in a faster timeframe.

Tri-carrier Network Diversity + One-stop ICT Advantage



With our completed integration of WTT, HKBN is now the only carrier in Hong Kong powered by tri-carrier fibre networks. This ultra-resilient fibre network advantage offers unprecedented route diversity and reliability – comprising three networks from HKBN, NWT and WTT worth over $15 billion invested. For businesses, particularly those who operate or depend on mission-critical applications, we offer network resilience that is intelligently built-in and always on.

Couple that with our one-stop capabilities to deliver powerful, scalable ICT solutions – from Internet and data connectivity, cloud solutions, information security to managed services, data centre services, business continuity and system integration and so on – and we're perfectly positioned to enable businesses to do and achieve more for their customers.

** Please refer to the notes on page 11 for further details.*

What we do

HKBN transforms the way people and businesses connect and do more in the digital era

As a leading provider of premier ICT solutions, our work contributes indispensably to making Hong Kong a modern, thriving interconnected society. HKBN's comprehensive range of products and services ensures that customers can rely on us to stay connected and to do business better.

Multi-play services for households:

- High Speed Fibre Broadband
- Managed Wi-Fi with Home Network Security and Parental Control
- Home Telephone
- Mobile Services
- Over-The-Top Entertainment & Music Streaming

Diverse ICT solutions and bespoke services for enterprises:

- High-speed Fibre Business Broadband
- Data Connectivity
- Voice communication
- Mobile Services
- Integrated Cloud Services
- Data Centre Services
- Managed Wi-Fi
- Information Security
- Business Continuity
- System Integration

HKBN Recurring Billing Relationships

1 in 3
HK families

1 in 2
HK active companies

Over

330

Co-Owners run HKBN with skin in the game

Our Co-Ownership Structure

HKBN is the only telecom carrier in Hong Kong driven by Co-Owners who have a vested financial interest to grow our business, surpass the competition, and to deliver amazing shareholder returns.

Our leadership is powered by unique Co-Ownership Plans which allows all supervisory and management level Talents to voluntarily invest their own savings in the amount of between 2 and 12 months of salary to acquire HKBN stock. Through this dual role as both investors and Talents, our Co-Owners are incentivised with 'skin in the game' to watch over all aspects of HKBN's performance and competitiveness. Far from typical, our dedicated Co-Owners always have the Group's best interest at heart. During this fiscal year period, HKBN had over 330 Co-Owners under Co-Ownership Plan II. In August 2019, an overwhelming majority of our shareholders approved Co-Ownership Plan III Plus, which will kickstart in FY20, offering more than 1,000 Talents out of about 4,400 the opportunity to become Co-Owners of HKBN.

▲ From every facet of HKBN's business and operations, our 300+ Co-Owners are aligned in their motivation for growth and success.

Shareholder Letter

NiQ Lai
Co-Owner and Chief Executive Officer

William Yeung
Co-Owner and Executive Vice-chairman

Dear Fellow Shareholders,

Through fully integrating a sequence of transactions – Y5Zone[Note 1] in 2013, NWT[Note 2] in 2016, ICG[Note 3] in 2018, WTT[Note 4] in 2019 and JOS[Note 5] (pending shareholders' approval in 2019), we will completely transform HKBN. At our IPO in 2015, we were residential broadband centric with just over $2 billion revenue, whereas today, we have become enterprise centric after a series of business combinations with revenue of over $5 billion. With our new suite of capabilities, our objective is to transform from a commodity provider of telecom services into the leading integrated ICT (Information and Communications Technology) partner across residential and enterprise segments, i.e. we are now far more than merely a fixed-line telecom carrier.

Our "Best of Breed" Management Diversity

Core to our integration is our "Best of Breed" approach, i.e. we retain and promote Talents based on mindset and capability rather than whether they are from the acquiring or acquired company. Today, our management team is by far the most diverse amongst our peers, with an awesome mix of veteran and fresh perspectives originating from within HKBN as well as through Talents who joined from acquisitions, merger or regular recruitment in the past few years, which makes us far more ready to take advantage of rapid technology changes. Furthermore, the majority of our newly acquired senior executives intend to join us as Co-Owners as part of our upcoming Co-Ownership Plan III Plus, putting skin in the game towards one common goal.

Table: Profile of HKBN's top 64 executives (top 1.4% of the Group), i.e. Associate Directors and above, as at September 2019.

Company of Origin	Total	% of Team
HKBN		
More than 5 years with HKBN	29	45%
5 years or less with HKBN	7	11%
WTT	16	25%
NWT	5	8%
Y5Zone	3	5%
ICG	4	6%
Total	64	100%

▲ Comprising elites from HKBN and Y5Zone, NWT, ICG and WTT, HKBN management team is by far the most diverse and agile amongst our industry to meet challenges head-on.

Our Co-Ownership Legal Unfair Competitive Advantage ("LUCA")

At HKBN, our major LUCA is our Co-Ownership culture. With money and time, all other elements of our Company can be replicated by our competitors, but our culture is almost impossible to recreate. Our current Co-Ownership Plan III Plus is essentially a 3% of HKBN market capitalisation incentive which requires both incredible shareholder generosity to accept possible dilution AND incredible management audacity to personally buy the base shares upfront so as to qualify to earn matching free bonus shares by achieving aspirational goals for cumulative AFF/share of between $2.53-3.03 between FY19-21, versus $0.57 attained in FY18. In short, for Co-Owners to achieve our Co-Ownership Plan III Plus incentive range, we must deliver significant growth in AFF/share in the 3-year period from FY19-21; given our matured market, this means we need to achieve assertive market share gains and operating efficiency gains.

At the current total market capitalisation of $22 billion(Note 6), 3% is worth approximately $700 million. Assuming a doubling of the Co-Ownership Plan II take-up rate to, say, 700 Co-Owners, this incentive represents an average of approximately $1 million per Co-Ownership Plan III Plus Co-Owner if we can max-out on the incentive parameters. In short, this is how we create distributed wealth for our shareholders, including our Co-Owners.

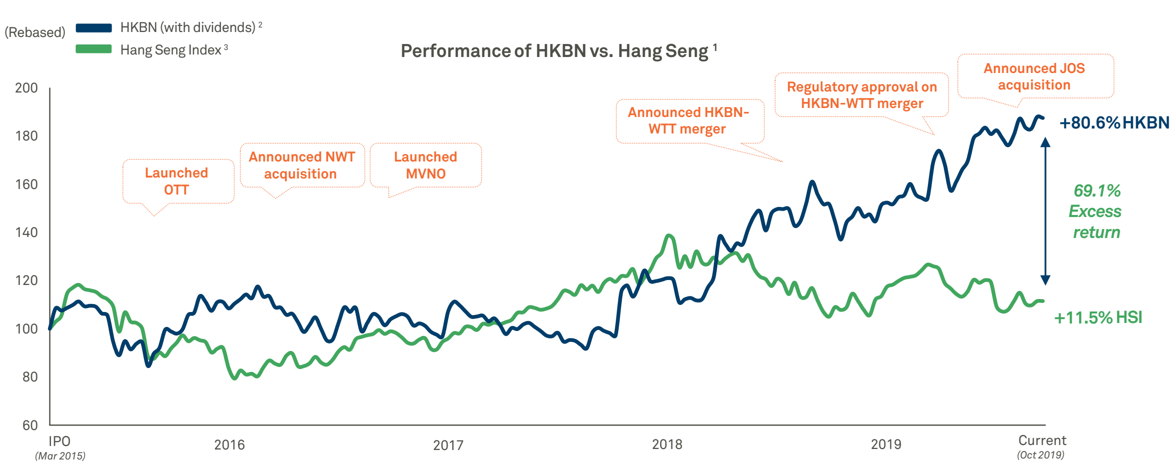
Our pain/GAIN Alignment

In addition to our Group alignment via Co-Ownership, we offer additional project related alignment via our unique pain/GAIN incentive. HKBN, like any company, has limited resources, so we must have a way for resource prioritisation. For a specific project, if the project team feels strongly about the return, our pain/GAIN scheme allows the team leaders to "underwrite" the project KPIs with a part of their salary (the pain), such that if the KPIs are achieved or exceeded, they will get a multiple of their pain back as GAIN. Conversely if they fail to meet the target, their committed salary will be taken away as pain and donated to a charity of their choice. In short, when we set pain/GAIN KPIs, we have real skin in the game.

Stock Price Chart = Co-Owner Families' Net Worth

For salaried employees, the following HKBN stock price chart is just a detached graphic, whereas for our 330 plus Co-Owners, the chart represents a big part of our families' net worth. At HKBN, we think and execute in the 3-4 year Co-Ownership trenches rather than the half-yearly reporting focus of our competitor peers.

Chart: Total Returns Since HKBN IPO Vs Hang Sang Index



Source: HKBN's disclosure, FactSet
Note: Based on market data as of Oct 23, 2019; [1] Both of HKBN share price and Hang Seng Index were rebased to 100 on Mar 12, 2015; [2] Includes accumulated DPS based on actual timing of dividends payment; [3] Hang Seng Index reflects cash dividend or distribution in the total return index counterpart as reinvestment on the ex-date

We hope that the above gives you a sense of what makes our HKBN culture unique. Post JOS completion, we look forward to welcoming Mark Lunt – Group Managing Director of JOS, Eric Or – Managing Director, JOS Greater China, and Stanley Chiu – JOS Group Financial Controller as Co-Owners and pain/GAIN participants.

Sincerely yours,

William YEUNG
Co-Owner and Executive Vice-chairman

NiQ LAI
Co-Owner and Chief Executive Officer

Notes:

1. *HKBN Group Limited ("HKBNGL"), an indirect wholly-owned subsidiary of the Company, acquired the entire issued share capital of Y5Zone Limited in 2013 (the "Y5Zone").*

2. *HKBNGL acquired the entire issued share capital of Concord Ideas Ltd. and Simple Click Investments Limited on 31 March 2016 (the "NWT").*

3. *HKBNGL acquired the entire issued share capital of HKBN Enterprise Solutions Cloud Services Limited (formerly known as "I Consulting Group Limited") on 8 May 2018 (the "ICG").*

4. *Metropolitan Light Company Limited ("MLCL"), a direct wholly-owned subsidiary of the Company, acquired the entire issued share capital of WTT Holding Corp on 30 April 2019 (the "WTT Merger" or "WTT").*

5. *HKBNGL proposed to acquire the entire issued share capital of Jardine OneSolution Holdings (C.I.) Limited, Adura Hong Kong Limited and Adura Cyber Security Services Pte Ltd on 23 August 2019 (the "JOS"). For details, please refer to the section under "Significant Investments, Acquisitions and Disposal" on page 31.*

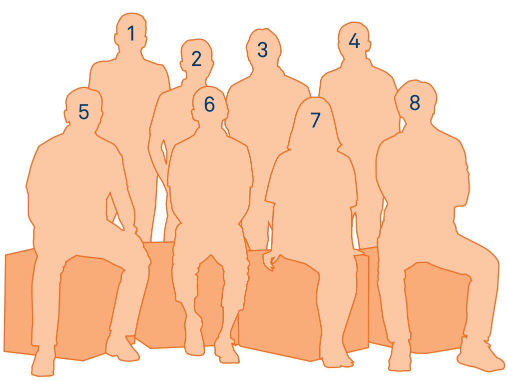
6. *Assuming full Vendor Loan Notes conversion, i.e. 1.479 billion shares x $14.94 stock price as at the close of trading on 23 October 2019.*

Board of Directors and Senior Management

Board of Directors and Senior Management

Chairman and Independent Non-executive Director

Mr. Bradley Jay HORWITZ, aged 64, was appointed as an Independent Non-executive Director, the Chairman of the board of directors of the Company (the "Board") and a member of the Audit Committee and the Nomination Committee of the Company on 6 February 2015. Mr. Horwitz has over 30 years of experience in the wireless and telecommunication industry. Mr. Horwitz founded Trilogy International Partners in 2005 and has been the President and the Chief Executive Officer of the company since it was founded. Trilogy International Partners was established to acquire wireless international assets in Haiti and Bolivia and to develop additional international wireless assets, primarily in South America and the Caribbean. Prior to establishing Trilogy International Partners, Mr. Horwitz served as the President of Western Wireless International, having founded the company in 1995 while also serving as the Executive Vice President of Western Wireless Corporation. Previously, Mr. Horwitz was the founder and the Chief Operating Officer of SmarTone Mobile Communications Limited. Mr. Horwitz also worked in various management capacities for McCaw Cellular including serving as the Vice President of International Operations and the Director of Business Development. Mr. Horwitz presently serves as the Director of the Center for Global Development and the Mobile Giving Foundation. Mr. Horwitz graduated from San Diego State University, U.S. with a Bachelor of Science Degree in August 1978.



1. **Zubin Jamshed IRANI**
   Non-executive Director
2. **Yee Kwan Quinn LAW**
   Independent Non-executive Director
3. **Bradley Jay HORWITZ**
   Chairman and Independent Non-executive Director
4. **Stanley CHOW**
   Independent Non-executive Director
5. **Teck Chien KONG**
   Non-executive Director
6. **William YEUNG**
   Executive Director
7. **Deborah Keiko ORIDA**
   Non-executive Director
8. **NiQ LAI**
   Executive Director

Executive Directors

Mr. Chu Kwong YEUNG (also known as William YEUNG), aged 58, is the Executive Vice-chairman, an Executive Director, the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Yeung joined the Group in October 2005 as the Chief Operating Officer, overseeing customer engagement, relationship management and network development. In November 2008, Mr. Yeung was appointed as the Chief Executive Officer with the responsibility of developing corporate strategies and overseeing operations. On 1 September 2018, Mr. Yeung was appointed as the Executive Vice-chairman, stepping up to focus on engaging key strategic partners and exploring new business opportunities for the Group. Prior to joining the Group, Mr. Yeung was the Director of customers division at SmarTone Mobile Communications Limited, and served as a police inspector with the Hong Kong Police Force. Mr. Yeung obtained a Bachelor of Arts Degree from Hong Kong Baptist University in December 1992 and obtained a Master of Business Administration Degree from the University of Strathclyde, U.K. in November 1995 and a Master of Science Degree in Electronic Commerce and Internet Computing from the University of Hong Kong in November 2001. In 2010, Mr. Yeung was recognised as Champion of Human Resources by The Hong Kong HRM Awards. Mr. Yeung is a proud Co-Owner of the Company.

Mr. Ni Quiaque LAI (also known as NiQ LAI), aged 49, is the Chief Executive Officer of the Group, and an Executive Director of the Company. Mr. Lai joined the Group in 2004 and has rich experience in the telecommunications, research and finance industries. Mr. Lai was appointed as the Chief Financial Officer in 2006, the Chief Talent & Financial Officer in 2016 and the Chief Operating Officer in 2017. Mr. Lai took the helm as the Chief Executive Officer in September 2018, leading all HKBN Talents to deliver world class products and services to make our Hong Kong a better place to live. Prior to joining the Group, Mr. Lai was an analyst and the Director and the Head of Asia Telecom Research for Credit Suisse, where he was involved in numerous global fund raising initiatives for a wide range of Asian telecom carriers. Prior to Credit Suisse, Mr. Lai held positions in HKT, as a strategic planning manager, and Kleinwort Benson Securities (Asia). He is currently a member of Advisory Board of Shyam Spectra Private Limited (formerly known as "Citycom Networks Pvt. Ltd.") and the Director of Cambodian Children's Fund (Hong Kong) Limited. Mr. Lai graduated from the University of Western Australia with a Bachelor of Commerce Degree in April 1990 and obtained an Executive Master of Business Administration Degree from Kellogg-HKUST, Hong Kong in June 2009. Mr. Lai is a fellow member of Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. In 2009, he was recognised as Champion of Human Resources by The Hong Kong HRM Awards, and was selected by Global Telecoms Business in 2013 as one of the Top 50 CFOs in the industry to watch. In March 2016, he was recognised as 1st for Best CFO by FinanceAsia Survey of Asia's Best Companies 2016 (Hong Kong). Mr. Lai is a proud Co-Owner of the Company.

Non-executive Directors

Ms. Deborah Keiko ORIDA, aged 52, was appointed as a Non-executive Director and a member of the Nomination Committee of the Company with effect from 20 November 2015. Ms. Orida is the Senior Managing Director & Global Head of Active Equities at Canada Pension Plan Investment Board ("CPPIB"), a substantial shareholder (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) of the Company. Ms. Orida joined CPPIB in 2009 in Toronto and has held senior leadership roles, including Managing Director, Head of Relationship Investments International, covering Europe and Asia, and was most recently Managing Director and Head of Private Equity Asia. Ms. Orida is responsible for leading the global Active Equities department, which includes Active Fundamental Equities, Relationship Investments, Thematic Investing, Fundamental Equities Asia, Direct Equity Investments Latin America and Sustainable Investing. Prior to joining CPPIB, Ms. Orida was an investment banker at Goldman Sachs & Co. in New York and Toronto where she advised management teams and boards on mergers and acquisitions and financing transactions. Prior to Goldman Sachs & Co., Ms. Orida was a securities lawyer at Blake, Cassels & Graydon in Toronto. Ms. Orida previously served on the Board of Directors of Nord Anglia Education and the Board of Directors of the Investment Committee of the Bridgepoint Health Foundation and was the Chair of the Board of Directors of Vitalhub Corp., a mobile healthcare startup company. Ms. Orida holds a Master of Business Administration from The Wharton School, and a Bachelor of Laws and a Bachelor of Arts from Queen's University, Canada.

Mr. Zubin Jamshed IRANI, aged 47, was appointed as a Non-executive Director, a member of the Audit Committee and a member of Remuneration Committee of the Company on 30 April 2019. Mr. Irani is a Partner with TPG Capital and leads the Asia Operations Group. He brings over 20 years of experience in building strong teams, driving performance and managing change within businesses. At TPG Capital, Mr. Irani has worked in the consumer, healthcare, financial services, telecom and technology sectors. Prior to TPG Capital, Mr. Irani was with United Technologies Corporation ("UTC") where he led the business in India which included Carrier Air-conditioning and Refrigeration, Otis Elevators and UTC Fire & Security. Mr. Irani started his career at McKinsey & Company and worked in the Cleveland, Detroit, Copenhagen and Mumbai offices, serving several multi-national clients with a focus on automotive, industrial and post-merger management. Mr. Irani holds a Masters in Materials Science and Engineering from Massachusetts Institute of Technology, U.S. and a Bachelor of Technology in Materials Engineering from Indian Institute of Technology Kanpur, India.

Mr. Teck Chien KONG, aged 44, was appointed as a Non-executive Director and a member of the Nomination Committee of the Company on 30 April 2019. Mr. Kong is a Partner at MBK Partners and is based in Hong Kong. With extensive investment experiences in both the telecommunication and media industries, he has led MBK Partners' investments in WTT Holding Corp, China Network Systems Co., Ltd. and Gala TV Corp. Prior to MBK Partners, Mr. Kong spent five years at Carlyle Asia Partners, where he was Vice President and co-head of the Singapore office, and three years in the investment banking division at Salomon Smith Barney in New York and Hong Kong. Mr. Kong currently serves on the Board of Directors of, among others, Apex International Corporation, Teamsport Topco Limited, Siyanli Co. Ltd., and Wendu Education & Technology Group Limited, and has experience serving on Board of Directors of Beijing Bowei Airport Support Limited, China Network Systems Co., Ltd., Gala TV Corp., GSE Investment Corporation, Luye Pharma Group Ltd and HKBN Enterprise Solutions HK Limited (formerly known as WTT HK Limited). Mr. Kong holds a Bachelor of Business Administration from the University of Michigan Business School, U.S., and has completed an executive management programme at Harvard Business School, U.S.

Independent Non-executive Directors

Mr. Stanley CHOW, aged 55, was appointed as an Independent Non-executive Director, the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company on 6 February 2015. Mr. Chow has over 21 years of experience as a corporate lawyer in Hong Kong and Canada, including over 18 years of experience in dealing with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during his time in private practice and as a senior manager in the Stock Exchange's Listing Division. Mr. Chow is currently a Non-executive Director of PuraPharm Corporation Limited (stock code: 1498), a company which is listed on the Main Board of the Stock Exchange. Mr. Chow was a partner in the Hong Kong office of Latham & Watkins, an international law firm, from March 2009 to February 2014 where he was the local department chair of the corporate department in Hong Kong. He was also a member of the firm's Initiatives Committee from March 2012 to February 2014. Prior to joining Latham & Watkins, Mr. Chow practised law with Allen & Overy, another international law firm, from November 1996 to January 2009 where he was a partner in its Hong Kong office for over 8 years. As a corporate lawyer in Hong Kong, Mr. Chow has advised on a broad range of corporate finance and mergers and acquisitions transactions, including in the context of the Stock Exchange and the Listing Rules. Prior to Mr. Chow's time in private practice, he was a senior manager in the Stock Exchange's Listing Division from May 1995 to October 1996 and also practised law with Canadian law firms in Hong Kong and Canada. Mr. Chow was a member of The Law Society of Hong Kong's Company Law Committee from August 2011 to October 2018, and was admitted as a solicitor in Hong Kong in 1995 and in England and Wales in 1994. He was also admitted as a barrister and solicitor in British Columbia, Canada in 1994 and in Ontario, Canada in 1991. Mr. Chow graduated from Queen's University, Canada with a Bachelor of Commerce (Honours) Degree in May 1986 and obtained a Juris Doctor with Honour Standing from the University of Toronto, Canada in June 1989.

Mr. Yee Kwan Quinn LAW, SBS, JP, aged 66, was appointed as an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company on 6 February 2015. Mr. Law is currently an Independent Non-executive Director of Bank of Tianjin Co., Ltd. (stock code: 1578), ENN Energy Holdings Limited (stock code: 2688) and BOC Hong Kong (Holdings) Limited (stock code: 2388), all of which are listed on the Main Board of the Stock Exchange. Mr. Law also presently serves as an advisor of the Hong Kong Business Accountants Association, and he was previously the Director and the Vice President of such Association. Mr. Law has been a member of the Court of the Hong Kong University of Science and Technology since 4 October 2018. Mr. Law ceased to be the Deputy Chairman of Professional Conduct Committee of the Hong Kong Institute of Certified Public Accountants on 31 December 2018. From 1 August 2012 to 31 July 2018, Mr. Law was a council member cum Audit Committee Chairman at the Hong Kong University of Science and Technology. From 1 March 2008 to 28 February 2013, Mr. Law was the Deputy Chairman and the Managing Director of the Urban Renewal Authority, a statutory organisation in Hong Kong. Mr. Law is a Fellow of the Hong Kong Institute of Certified Public Accountants and is also a Fellow of the Association of Chartered Certified Accountants. Mr. Law was admitted as an Associate of the Institute of Chartered Secretaries and Administrators on 11 November 1980. In view of Mr. Law's experience in reviewing or analysing audited financial statements of private and public companies, the Directors believe that Mr. Law has the appropriate accounting or related financial management expertise for the purposes of Rule 3.10 of the Listing Rules.

Board of Directors and Senior Management

1. **Almira CHAN**
   Chief Strategy Officer
2. **Agnes TAN**
   Chief Legal Officer
3. **Billy YEUNG**
   Co-Owner and Chief Executive Officer – Enterprise Solutions
4. **William YEUNG**
   Co-Owner and Executive Vice-chairman
5. **Elinor SHIU**
   Co-Owner and Chief Marketing Officer – Residential Solutions
6. **Eric HO**
   Co-Owner and Chief Information Officer
7. **NiQ LAI**
   Co-Owner and Chief Executive Officer
8. **Andrew WONG**
   Co-Owner and Chief Financial Officer

Senior Management

Mr. William YEUNG, his biographical details are set out on page 14.

Mr. NiQ LAI, his biographical details are set out on page 14.

Mr. Tak Wa William YEUNG (also known as Billy YEUNG), aged 53, the Chief Executive Officer – Enterprise Solutions of the Group. Billy joined the Group in January 2013 and leads a team of sales professionals to service corporates of all sizes and carrier customers. In 1995, he pioneered the Netplus regional Internet backbone for telecommunication carriers in Asia Pacific. While at PCCW, he developed the Netvigator Internet service. In 2004, Billy branched out to spearhead Y5Zone in Hong Kong. In nine years, he steered the company to become one of the largest wholesale Wi-Fi suppliers in Hong Kong, which was acquired by HKBN Group Limited in January 2013. Billy holds a Master of Business Administration Degree from the University of Birmingham, U.K. Billy is a proud Co-Owner of the Company.

Mr. Chan Fai HO (also known as Eric HO), aged 62, the Chief Information Officer of the Group. Eric joined the Group in July 2012 and is responsible for the Group's information technology strategy development and leads the IT Department to optimise business support and processes through IT system development, integration and management. Prior to joining HKBN, Eric was the Head of IT and Service Platform at SmarTone Mobile Communications Limited, and before that, he held senior IT positions at Huawei Software Technology, Emperor International Holdings, Westpac, CSL and Bank of America. He was awarded CIO of the Year (Medium Enterprise) jointly conferred by Computerworld Hong Kong and CIO Connect in 2013. Eric is a Certified Information Security Manager (CISM) and holds a Bachelor's Degree in Science from the University of Hong Kong, a Master Degree in Business Administration from Oklahoma City University, U.S., and a Master in Accountancy Degree from Charles Sturt University, Australia. Eric is a proud Co-Owner of the Company.

Mr. Yue Kit Andrew WONG (also known as Andrew WONG), aged 40, the Chief Financial Officer of the Group and the Company Secretary of the Company. Andrew joined the Group in 2006. He has extensive experience in the external auditing, accounting and finance, internal control and compliance. He leverages over 16 years of auditing and finance experience to guide his leadership of the Group's finance and investor relations endeavours. Andrew holds a Bachelor's Degree in Accounting and Law from the University of Manchester, U.K. and an Executive Master of Business Administration Degree from the Chinese University of Hong Kong. He is also a member of the Hong Kong Institute of Certified Public Accountants. Andrew is a proud Co-Owner of the Company.

Ms. Wing Yee CHAN (also known as Almira CHAN), aged 53, the Chief Strategy Officer of the Group. Almira's dream job was an accountant. After graduation, Almira joined PricewaterhouseCoopers, where she began her professional life as an accountant. Following this experience, she joined Atos Origin and Wharf T&T (later renamed WTT). In her 30-year journey from an Audit Assistant at PricewaterhouseCoopers to CFO at WTT, she has undertaken a wide range of responsibilities, including management of Accounting & Finance, Investor Relations and Building Access for network rollout. Whilst Almira's dreams have come true, she remains as motivated as ever to evolve beyond her comfort zone. Following the integration of HKBN and WTT, she was appointed Chief Strategy Officer in July 2019. In her current role, Almira leads the development and implementation of HKBN's overall corporate strategy including business development and joint ventures, strategic investments, acquisitions and divestitures. Fully inspired, she sees this newly created role as a new challenge. With a wealth of financial management experience, coupled with a passion for the telecommunications technology industry, she is determined to help the company reach a new peak. Almira holds an Honours Diploma in Accountancy from Lingnan College and is a qualified accountant and a member of The Chartered Association of Certified Accountants. She is also a member of the Hong Kong Institute of Certified Public Accountants. Almira has committed to become a proud Co-Owner of the Company.

Senior Management

Ms. Yung Yin SHIU (also known as Elinor SHIU), aged 48, the Chief Marketing Officer – Residential Solutions of the Group. A home-grown Talent in every sense of the word, Elinor joined the Group in 1994 as a Marketing Trainee and was appointed as Chief Marketing Officer – Residential Solutions in March 2019 to lead the marketing strategies and operations of HKBN residential market business. Working her way up, she is one of the key individuals credited for growing HKBN from a startup of less than 100 Talents to a powerhouse in the telecommunications industry with over 4,400 Talents today. In 2002, Elinor left the Group for a brief two-year intermission with HGC, where she focused on corporate marketing. She rejoined HKBN in 2004. Throughout her years with HKBN, Elinor earned wide-ranging exposure across various business areas and functional teams. Her array of experiences extended from marketing for residential and corporate sectors, all the way to overall business management for HKBN's residential business. In 2008, she was appointed as a Mini-CEO and was granted the mantle to oversee the Group's business in Kowloon East district, managing 25% of the Group's residential business revenue in Hong Kong. After five successful years of leadership under her belt, Elinor transformed from a seasoned marketer into an experienced management executive driven to become HKBN's CXO of the future. In 2018, she was appointed as Head of Residential Marketing, steering digitalisation and omni-channel customer experience, as well as the Group's highly successful transformation from a broadband provider into the quad-play provider of choice for Hong Kongers. With her appointment as CMO – Residential Solutions, Elinor is relentlessly driving HKBN's growth as a showcase of best practices for the telco industry. She holds an Executive Master of Business Administration Degree from The Chinese University of Hong Kong. Elinor is a proud Co-Owner of the Company.

Ms. Kok Peng Agnes TAN (also known as Agnes TAN), aged 60, the Chief Legal Officer of the Group. Born and raised in Malaysia, Agnes furthered her studies in Australia. In 1994, she relocated to Hong Kong and began her telecommunications journey that covered all facets of legal, policy, regulatory and interconnection issues. She was a primogenitor in competing with the incumbent when the Hong Kong government deregulated the local fixed-line market in 1995 with the issuance of additional local fixed telecommunication network services licences. Over the years, Agnes has actively engaged with the regulator and industry players for a pro-competition regulatory and interconnection regime. Prior to the WTT Merger, Agnes was WTT's Vice President, Legal, Regulatory and Carrier Affairs. In her current capacity, Agnes brings over her extensive experience to advance HKBN Group's interests in legal and regulatory areas. Before relocating to Hong Kong, Agnes worked in Australia specialising in technology licensing, intellectual property rights protection and their commercialisation. Agnes holds a Bachelor of Commerce (Marketing) from the University of New South Wales and a Bachelor of Laws from the Australian National University. Agnes is Chair, Legal Committee, Hong Kong General Chamber of Commerce; and President, Regulatory Issues Group, Communications Association of Hong Kong. She is also a member of the Telecommunications Regulatory Affairs Advisory Committee, Office of the Communications Authority. Outside of work Agnes enjoys travelling and reading. Her favourite sport is skiing, as it requires focus or the risk of serious injury. If she were not a lawyer, she would likely be found enjoying more creative and 'hands-on' pursuits including pottery, painting, and home décor. Agnes has committed to become a proud Co-Owner of the Company.

Our Strategy

From how we operate to the decisions we take; our ultimate purpose 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 performance.

Customers

As a company, we have always sought out market inadequacies and followed up with action to do better. In terms of our business, a legacy of delivering innovation as well as exceptional product and service experiences has provided customers with vast improvements to the way they live, learn, work and play.

Talents

As an employer in Hong Kong and mainland China, we take great pride – and lead by example – in how HKBN Talents are treated as priority number one. Through a range of initiatives, we provide Talents with excellent work flexibility to enjoy life and perform efficiently, as well as offer development and entrepreneurship opportunities that ensure they flourish professionally.

Suppliers

The relationships which exist between HKBN and our business partners and suppliers are built on mutual trust, respect, fairness and rigorous compliance of the respective laws and regulations. Paramount is the concept of win-win partnerships. To this end, we want all our partners and suppliers to work with us to make money together, rather than off each other.

Community

By actively embracing our role in the community, we believe HKBN has a responsibility to uplift and empower, especially for people of underprivileged circumstances. Above all, our approach, which we term Corporate Social Investment ("CSI"), favours investing and collaboration over philanthropic donations.

Environment

As a technology-based company, our goal is to be smarter for the good of our planet. This we achieve by utilising the latest eco-friendly solutions and ideas to help us realise better results in energy consumption, waste reduction, recycling, carbon footprint reduction and more.

Our ESG Commitment

In everything we do, and in every decision we take, "Make our Hong Kong a Better Place to Live" is omnipresent at all times. With this core purpose driving us, HKBN is built on making purposeful profits. We believe our business is best served by creating positive social impact. When we do this right, our Talents will have passion to execute, and profits will follow.

Our Environment, Social and Governance ("ESG") policy is purposely aligned with our Group's overall corporate strategy. This approach ensures that in all aspects of our business, actions are rigorously executed with society, environment and corporate governance that aim to go beyond merely fulfilling legal and regulatory requirements embedded. As such, ESG factors play a major role in shaping the underlying drivers which define our sustainable growth. For us, ESG serves both to inform our strategies and to measure our performance in five key stakeholder areas. They are:

- Innovation for Customers
- Total Rewards for Talents
- Responsible & Win-Win Supply Chain Partnerships
- Technology & Expertise for Community Betterment
- Minimising Environmental Footprint

By striving to address these prioritised goals (please refer to the ESG Framework on page 21 for details,) we can better improve HKBN's prospects for business, mitigate the risks affecting the Group, as well as enhance our reputation. When these issues are addressed, overall performance will increase to deliver profits in a purposeful way.

In preparing this report, we have adhered to the reporting principles and provisions set forth by the Hong Kong Stock Exchange's ESG "comply or explain" guidelines. Unless specifically stated otherwise, the scope of ESG reporting herein covers all aspects of our HKBN Group operations in Hong Kong, Shenzhen and Guangzhou. Due to our integration with WTT, which began in May 2019 and was largely completed at the end of August 2019, our ESG reporting for FY19 does not contain figures relating to WTT operations.

HKBN ESG FRAMEWORK

Pursue Purposeful Profits

With HKBN Co-Ownership, we drive disruptive innovation to harvest substantial and sustainable benefits for Hong Kong and our stakeholders. Throughout this journey, our aim is to work beyond mere compliance with laws and regulations.

Innovation for Customers

- Innovate for better and more accessible services
- Uphold fair and transparent marketing communication
- Improve customer privacy protection
- Promote healthy content & usage

Minimising Environmental Footprint

- Increase energy efficiency of overall operations
- Minimise overall waste impact

Technology & Expertise for Community Betterment

- Utilise HKBN's expertise in technology & business to make sustainable social impact
- Empower Talents to serve the Hong Kong community

Total Rewards for Talents

- Champion LIFE-work priority & life-long development
- HKBN Co-Ownership fosters interest alignment for sustainable business growth and service excellence
- Create pride & passion by pursuing difference-making purpose for Hong Kong
- Incentivise excellence via performance-based remuneration

Responsible & Win-Win Supply Chain Partnership

- Procure responsibly and ethically
- Pursue long-term win-win relationships with suppliers

Our Strategy

Our Material Approach

Through our materiality approach, we provide a transparent window into HKBN's pertinent economic, social and governance aspects to address and report upon. Viewed in their entirety, our strategy and performance in the material issues demonstrates how we tackle ESG-related aspects which are considered most important to the Group and our stakeholders.

Communicating and listening to our stakeholders helps enlighten our understanding of key priorities from a sustainability perspective. In FY17, we appointed an independent consultant to administer a comprehensive materiality assessment on the environment, social and governance aspects of HKBN. Informing this process, online surveys, focus group workshops and interviews have been regularly conducted with different external stakeholders (i.e. customers, suppliers, community partners and regulators) and internal stakeholders (i.e. Co-Owners and non-Co-Owner Talents). From these exercises, we identified a number of material issues and formulated priorities important to our company (please refer to the table on the next page for details).

To effectively reflect changes in our business (e.g. operational integration with WTT), as well as evolving stakeholder concerns, we engaged an external consultant in August 2019 to kick-start a new round of materiality assessments. The results will guide us to formulate an up-to-date ESG strategy against identified material issues for the next fiscal year. The results of these materiality assessments will be published in our 2020 annual report.

Our ESG Governance Structure

1 Business Units → 2 ESG Taskforce → 3 Management Committee → 4 Board of Directors

1. At the execution level, representatives from different business units drive and coordinate actions, as well as review progress made towards our ESG commitments.

2. Led by the Head of Talent Engagement & Corporate Social Investment (CSI), the ESG Taskforce consists of representatives from the CSI, Internal Audit & Risk, Talent & Organization Development, and Corporate Communications departments, which co-ordinates ESG planning and implementation throughout HKBN, including guiding and collaborating with business units to deliver and monitor progress on the pre-set ESG goals and objectives. The Taskforce conducts periodic review with business units, reports on ESG performance to the Management Committee (MC) and benchmarks latest ESG trends that impact HKBN's ESG strategy.

3. Our MC, led by the CEO and composed of our c-suite executives, is responsible for formulating HKBN's ESG strategy. Together they oversee the development, execution and reporting of our ESG performance. The MC provides ESG updates to the Board of Directors on a regular basis.

4. The Board of Directors oversees and is accountable for HKBN's ESG strategy, development and performance.

Our Strategy

The following table highlights the many issues identified as important to our Group from the perspective of sustainability:

Our Priorities

Stakeholder	Key Priorities	Other Priorities
Customers	**Service reliability, coverage and affordability** Provide best value to customers and make services more accessible to those living in locations currently not served by our network coverage **Fair and transparent marketing and advertising approach** Empower potential and current customers to make informed decisions regarding our services and products **Customer privacy** Treat customer data with utmost priority and ensure customer privacy is protected at all times	**Accessibility for information and assistance** Offer great customer experience through the appropriate channels for information and service **Promote innovation and embed innovation in our services** Offer disruptive customer experiences and new service options via applying innovative technology **Safeguard customer health and product safety** Ensure all HKBN products and services are safe and healthy for our customers
Talents	**LIFE-work priority** Empower Talents to enjoy happy, healthy and productive lives which drive HKBN's capabilities to innovate and stay competitive **Fairly rewarded remuneration** Drive excellence in Talent performance via "pay for performance" culture	**Co-Ownership** Align HKBN Talent interests with shareholders to drive business success **Talent development** Empower Talents to grow and develop
Suppliers & Business Partners	**Effective communication and understanding of partner and supplier satisfaction** Establish long-term win-win partnership with suppliers and business partners **Ensure compliance with HKBN's supplier code of conduct** Align suppliers'/business partners' practices with HKBN's ESG practices to drive responsible and purposeful profits	
Community	**Technology for Good** Leverage HKBN's competitive advantage in technology to promote cyber wellness and narrow the digital divide in local communities **Talent volunteering** Leverage Talent expertise to contribute to the local community	
Environment	**Carbon emissions reduction** Fight climate change by smart and efficient use of energy **Waste minimisation** Enable an integrated waste system to contribute towards a sustainable planet	

Hang Seng Corporate Sustainability Index Series Member 2018-2019

Key Financial and Operational Summary

Table 1: Financial highlights

	For the year ended		
	31 August 2019	31 August 2018	Change YoY
Key financials ($'000)			
Revenue	**5,107,637**	3,948,952	+29%
– Residential	**2,472,707**	2,278,241	+9%
– Enterprise	**2,324,329**	1,379,183	+69%
– Product	**310,601**	291,528	+7%
Profit for the year	**214,527**	396,897	-46%
Adjusted Net Profit [1,2]	**538,175**	575,423	-6%
EBITDA [1,3]	**1,709,348**	1,179,588	+45%
EBITDA margin [1,4]	**33.5%**	29.9%	+3.6pp
Adjusted Free Cash Flow [1,5]	**750,170**	578,499	+30%
Reconciliation of Adjusted Net Profit [1,2]			
Profit for the year	**214,527**	396,897	-46%
Amortisation of intangible assets	**283,776**	129,627	>100%
Deferred tax arising from amortisation of intangible assets	**(45,599)**	(20,164)	>100%
Originating fee for banking facility expired	**–**	49,275	-100%
Transaction costs in connection with business combination	**75,608**	1,757	>100%
Transaction costs in connection with proposed business combination	**9,863**	18,031	-45%
Adjusted Net Profit	**538,175**	575,423	-6%

Key Financial and Operational Summary

	For the year ended		
	31 August 2019	31 August 2018	Change YoY
Reconciliation of EBITDA & Adjusted Free Cash Flow [1,3,5]			
Profit for the year	**214,527**	396,897	-46%
Finance costs	**259,271**	117,288	>100%
Interest income	**(4,083)**	(1,641)	>100%
Income tax	**94,835**	92,371	+3%
Depreciation	**534,758**	425,258	+26%
Amortisation of intangible assets	**283,776**	129,627	>100%
Amortisation of customer acquisition and retention costs	**240,793**	–	n/a
Transaction costs in connection with business combination	**75,608**	1,757	>100%
Transaction costs in connection with proposed business combination	**9,863**	18,031	-45%
EBITDA	**1,709,348**	1,179,588	+45%
Capital expenditure*	**(413,860)**	(394,480)	+5%
Net interest paid	**(276,802)**	(101,935)	>100%
Other non-cash items	**3,525**	1,324	>100%
Income tax paid	**(117,396)**	(116,234)	+1%
Customer acquisition and retention costs	**(231,901)**	–	n/a
Changes in working capital	**77,256**	10,236	>100%
Adjusted Free Cash Flow	**750,170**	578,499	+30%

Notes: *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 were required to be capitalised as an asset when incurred, and amortised over expected customer relationship period. Please refer to note 1(c)(ii) on pages 137 to 142 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 year ended		
	31 August 2019	31 August 2018	Change YoY
Residential business			
Fixed telecommunications network services business			
Residential homes passed ('000)	**2,360**	2,297	+3%
Subscriptions ('000)			
- Broadband	**878**	860	+2%
- Voice	**500**	500	-0%
Market share [6]			
- Broadband	**35.8%**	36.1%	-0.3pp
- Voice	**21.9%**	21.8%	+0.1pp
Broadband churn rate [7]	**0.9%**	1.1%	-0.2pp
Residential ARPU [8]	**$185**	$176	+5%
Mobile business			
Subscriptions ('000)	**277**	265	+5%
- Mobile (without broadband services)	**133**	137	-3%
- Mobile (with broadband services)	**144**	128	+13%
Mobile ARPU			
- Mobile (without broadband services)[11]	**$148**	$147	+1%
- Mobile (with broadband services)[12]	**$312**	$321	-3%
Residential customers ('000)	**1,019**	1,017	+0%
Enterprise business			
Commercial building coverage ('000)	**7.2**	2.4	>100%
Subscriptions ('000)			
- Broadband	**116**	57	>100%
- Voice	**454**	140	>100%
Market share [6]			
- Broadband	**36.5%**	19.2%	+17.3pp
- Voice	**25.3%**	7.7%	+17.6pp
Enterprise customers ('000)[13]	**103**	57	+81%
Broadband churn rate [9]	**1.3%**	1.2%	+0.1pp
Enterprise ARPU [10]	**$1,742**	$1,510	+15%
Total full-time permanent Talents	**4,131**	2,981	+39%

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 and transaction costs in connection with proposed 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 cost, transaction costs in connection with business combination, transaction costs in connection with proposed business combination and less interest income.

(4) EBITDA margin means EBITDA divided by revenue.

(5) Adjusted Free Cash Flow means EBITDA less capital expenditure, customer acquisition and retention costs, net 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, amounts due from joint ventures, amounts due to joint ventures, 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 June 2019 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. Enterprise ARPU calculation for the year ended 31 August 2019 includes the relevant revenue and average number of enterprise customers of WTT Group for the four months ended 31 August 2019 and those for HKBN for twelve months ended 31 August 2019. As such, the enterprise ARPU may be different if WTT Group's full year information was used. For information, the Enterprise ARPU for the Group for the month August 2019 was $2,356.

(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.

(13) Enterprise customers means total number of enterprise customers excluding IDD and mobile customers.

Business Review

The Group continued to deliver a solid set of operational and financial results for the year ended 31 August 2019. HKBN completed the WTT Merger on 30 April 2019 and transformed to the second largest ICT company in Hong Kong. Residential business continued to thrive as we relentlessly delivered customer-focused, integrated and high value-for-money services to our customers, which rewarded the Group with higher ARPU at a low monthly churn rate in return. As a result of consolidating four months of results of WTT Group, our Group revenue, EBITDA and Adjusted Free Cash Flow ("AFF") increased year-on-year by 29%, 45% and 30%, respectively, to $5,108 million, $1,709 million and $750 million.

- Enterprise revenue increased by 69% year-on-year to $2,324 million after consolidating four months of operating results of WTT Group in FY19. Enterprise revenue, before accounting for WTT Group, increased by 17% year-on-year to $1,619 million. During the year, total number of enterprise customers doubled to 103,000 while our enterprise ARPU improved from $1,510 to $1,742. The WTT Merger increased both our presence and capabilities in the enterprise segment, which has enabled us to provide integrated ICT solutions at competitive value to a much larger customer base. We see many more growth opportunities as we streamline our combined operations and fully exploit the upsell potential through integration.

- Residential revenue grew by 9% year-on-year to $2,473 million as a result of the successful execution of our multi-play strategy that increased ARPU while improved customer stickiness. Our customer base has shown good receptiveness of our quad-play offerings whereby our triple/quad-play upsell has reached 50% of our total broadband customers as of 31 August 2019. Historical full base residential ARPU has increased by 5% year-on-year, from $176/month in FY18 to $185/month in FY19, while our monthly churn rate remained low. Our market share by broadband subscriptions decreased slightly to 36% as at 30 June 2019 (based on the latest available OFCA statistics).

  Over-the-top ("OTT") services continued to be the key contributor to our quad-play strategy, whereby 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 it provide the opportunity for us to offer new and exciting content for customers at competitive prices.

  As always, the Group will continue to extend our integrated multi-play price strategy to deliver unprecedented household savings and service convenience to disrupt the legacy broadband, fixed-voice, content and mobile standalone segments.

- Product revenue increased by 7% year-on-year to $311 million, mainly represented by the sale of smartphone products that complements our mobile business.

Network costs and costs of sales increased by 47% year-on-year to $1,834 million mainly due to the consolidation of four months of WTT Group's operating results. The increase primarily includes the increase in network cost and other cost of services by 59% year-on-year to $1,545 million which was mainly driven by the continued expansion in the enterprise businesses, mobile service subscription and OTT related content costs. Network costs and costs of sales increased by 31% year-on-year to $1,630 million, excluding the contribution from WTT Group.

Other operating expenses increased by 29% year-on-year from $2,117 million to $2,735 million mainly due to the consolidation of four months of WTT Group's operating results. The increase primarily includes the increase in amortisation of intangible assets by 126% year-on-year to $276 million, the increase in transaction costs in connection with completed and proposed business combination by 332% year-on-year to $85 million and the increase in Talent costs by 42% year-on-year to $693 million.

Other operating expenses, excluding the contribution from WTT Group and transaction costs in connection with business combinations, increased by 1.6% year-on-year to $2,130 million. The slight increase was due to ongoing operational efficiency initiatives.

Finance costs increased by 121% year-on-year from $117 million to $259 million mainly due to the interest on senior notes of $103 million from the WTT Merger.

Income tax increased by 3% year-on-year from $92 million to $95 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 15% and 15%, respectively, for the FY19 and FY18. 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 by 46% year-on-year from $397 million to $215 million.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets, non-recurring finance costs and non-recurring items, decreased by 6% year-on-year to $538 million. This was mainly due to the fair value gain on interest-rate swap of $59 million in FY18 turned to a loss of $12 million in FY19.

AFF rose by 30% year-on-year to $750 million mainly due to the consolidation of four months of WTT Group's operating results, leading to a increase in EBITDA and inflow from working capital. The adoption of HKFRS 15 did not have any impact on AFF. The positive impact on EBITDA of $241 million was due to the exclusion of the amortisation of customer acquisition and retention costs from EBITDA, which is substantially deducted back for the calculation of AFF.

Outlook

The successful WTT Merger and the proposed JOS acquisition 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 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 AFF through the following initiatives:

- Further penetrate the enterprise market through our broad range of business-imperative services and more network capacity;
- Seamlessly execute the integration of WTT Group, in order to maximise the potential synergy benefits and to better serve the business community; Management targets to achieve $300 millions synergy per annum by the year ending 31 August 2021;
- 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/WTT Group in the revamped Co-Ownership Plan III Plus;
- To expand our quad-play bundle plans to multi-play to drive ARPU and subscription growth and disrupt the legacy broadband, fixed-voice, multimedia content and mobile standalone services; and
- To further lower finance costs by refinancing relatively expensive senior notes and deleverage to below 4x net debt to EBITDA ratio to enjoy a better interest rate grid of existing bank facility. Management intends to partially redeem up to 20% of the senior notes via cheaper financing.

Liquidity and Capital Resources

As at 31 August 2019, the Group had total cash and cash equivalents of $663 million (31 August 2018: $373 million) and gross debt (principal amount of outstanding borrowing) of $9,712 million (31 August 2018: $3,900 million), which led to a net debt position of $9,049 million (31 August 2018: $3,527 million). The significant increase in gross debt is mainly due to the consolidation of WTT Group's US$670 million (equivalent to $5,232 million) senior note in FY19.

- The Group's gearing ratio, which was expressed as a ratio of the gross debt over total equity, was 1.3x as at 31 August 2019 (31 August 2018: 3.8x).
- The Group's net debt to EBITDA ratio as computed in accordance with the term of the Group's various loan facilities is approximately 4.2x (31 August 2018: 3.0x). The significant increase in net debt to EBITDA ratio is mainly due to the US$670 million (equivalent to $5,232 million) senior notes.

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 31 August 2019 and 31 August 2018. As at 31 August 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 31 August 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 31 August 2019 and 31 August 2018, no assets of the Group were pledged to secure its loans and banking facilities.

Contingent Liabilities

As at 31 August 2019, the Group had total contingent liabilities of $8 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 7 August 2018, the Company, 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 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 condition precedents as set out in the Merger Agreement were 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 Corp has become direct wholly-owned subsidiary of MLCL and indirect wholly-owned subsidiary of the Company. As the accounting for the aggregate consideration was determined with reference to the market price of the ordinary shares of the Company on the completion date at $14.04 (as compared to $11.60, which is the reference share price in determining the consideration and also the conversion price of the Vendor Loan Notes), the goodwill recognised for WTT Merger at the completion date is larger than what it would be. 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.

On 23 August 2019, HKBNGL (as purchaser) and JTH (as seller), amongst others, entered into the share purchase agreement (the "Share Purchase Agreement"), pursuant to which, among other things, HKBNGL has conditionally agreed to purchase, and JTH has conditionally agreed to sell, the entire issued share capital of Jardine OneSolution Holdings (C.I.) Limited, Adura Hong Kong Limited and Adura Cyber Security Services Pte Ltd (collectively, the "Target Companies") for a consideration of US$50,000,000 (equivalent to $393,500,000) in cash (subject to certain closing and post-closing adjustments). Jardine Technology Holdings Limited has agreed to guarantee to HKBNGL the proper and punctual performance by JTH of its obligations under the Share Purchase Agreement. MLCL has agreed to guarantee to JTH the proper and punctual performance by HKBNGL of its obligations under the Share Purchase Agreement. Upon satisfaction of the condition precedent(s) as set out in the Share Purchase Agreement, the Target Companies will become direct wholly-owned subsidiaries of HKBNGL and indirect wholly-owned subsidiaries of the Company. Please refer to the announcement of the Company dated 23 August 2019 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 the year ended 31 August 2019.

Talent Remuneration

As at 31 August 2019, the Group had 4,131 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.

The Directors are pleased to present their report and the audited consolidated financial statements for the year ended 31 August 2019.

Principal Activities

HKBN Ltd. (the "Company", together with its subsidiaries, the "Group") is an investment holding company. The Group is a leading ICT services provider in Hong Kong. With extensive fibre-optic networks, the Group offers a comprehensive range of premier ICT services to both enterprise and residential markets, including broadband, data connectivity, managed Wi-Fi, mobile, voice communications, integrated cloud solutions, data centre services, information security services, business continuity and system integration.

Business Review

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year, and the future developments of the Group's business, are set out in the chapters headed "Shareholder Letter" and "Management Discussion and Analysis" on pages 8 to 11 and pages 28 to 31 of this annual report respectively.

Analysis Using Financial Key Performance Indicators

Details of the financial key performance indicators can be found in the chapters headed "Key Financial and Operational Summary" and "Management Discussion and Analysis" on pages 24 to 27 and pages 28 to 31 of this annual report respectively.

Principal Risks and Uncertainties

The Directors are aware that the Group is exposed to a variety of risks, some are specific to the industry in which the Group operates while others are common risks that most businesses face. Procedures have been established by the Directors to ensure significant risks that may adversely affect the Group's operation and performance are identified and corresponding measures are in place to mitigate those risks. For key risks related to the Group's businesses and to the industries in which the Group operates, please refer to the chapter headed "Corporate Governance Report" on pages 102 to 116. If any of these events occur, the Group's businesses, financial conditions, results of operations and/or prospects of the Group could be materially and adversely affected. These key risks are by no means exhaustive or comprehensive, and there may be other risks, in addition to those highlighted, which are not known by the Group or which may not appear significant now but could turn out to be so in the future.

Environmental Policies and Performance

As an environmentally responsible business, HKBN has a role to constantly explore policy which prioritises energy efficiency to reduce any negative impact on the environment. We have integrated environmental considerations into our business process, as well as minimise our generation of waste with a vision to "Make our Hong Kong a Better Place to Live".

With the implementation of our Environmental Policy since 2017, we have adopted various initiatives to continually improve our energy efficiency and minimise our generation of waste. Aiming to facilitate a greener and more sustainable future, we have been working on several energy reduction initiatives via collaboration and innovation. In addition, we have collaborated with our vendors, partners and community to "reduce-at-source", minimising waste by reducing consumption and encouraging reuse and recycling.

More information about the Group's environmental performance is set out in the chapter headed "Environment" on pages 94 to 101 of this annual report.

Relationships with Key Stakeholders

Talents

At HKBN, people are Talents, not staff. Talents are our investment, with each individual possessing his or her own respective skills and values. Our sustained success is attributed to a very simple philosophy, that is to provide the very best value, experience and opportunities to Talents so as to attract, retain and motivate the very best to work for our Company. In this light, we seek to not only comply with but exceed the legal requirements set by the Employment Ordinance and other laws and regulations related to employee welfare and working conditions, with a view to inspiring other companies to follow and make Hong Kong a better place to work.

Following the WTT integration, with a more enlarged scale, HKBN has begun aiming to achieve synergy and break down silos. After going through a journey that includes Townhall meeting, open house, office tours and two-way communication sessions, ex-WTT Talents have gotten to understand more about HKBN and embrace our unique culture.

Under the Sex Discrimination Ordinance, Family Status Discrimination Ordinance and Race Discrimination Ordinance, it is unlawful for any person or organisation to discriminate against another person (male or female) on the basis of gender, marital status, pregnancy or family status or; discriminate, harass or vilify a person on the grounds of their ethnicity. At HKBN, we are committed to preventing discrimination and treating all acts of discrimination with zero tolerance. Likewise, forced labour of any kind is not allowed. In line with the Employment Ordinance, we will not employ any children aged under 13. For the protection of children (under the age of 15) and young persons (aged 15 but under 18), the Company shall only employ young Talents in strict compliance with the Employment of Children Regulations and the Employment of Young Persons (Industry) Regulations.

All Talents who suffer injury arising out of and during work are covered by and entitled to compensation which exceeds the legal requirements stipulated under the related provision of the Employees' Compensation Ordinance.

Our '9am to 5pm Flexible Working Hour Policy' allows our Talents to work 8 hours (including a 1-hour-and-15-minute lunch break) instead of the typical 9-hour standard. Under Flexi Working Hours arrangement, non-shift Talents can decide to start their working day between 8:30am to 10:00am. All non-shift duty Talents may also enjoy a 1-hour and 15-minute lunch break taken flexibly between 12:00pm and 2:30pm. In addition, full-time Talents who are not required to provide on-site support duties, may apply, subject to supervisor approval, to work via mobile office during normal working days.

Adhering to Total Rewards viz. Strict performance-based monetary rewards, we have in place a fair and effective performance appraisal system and incentive bonus schemes. Every year, we identify the bottom 5% of our underachieving performers and invite them to undergo an enhancement programme. If their performance remains out of alignment, they are asked to leave. Through this, the Group is better equipped to concentrate on nurturing and rewarding our top 95% performers.

More information of the Group's Talent culture can be found in the chapters headed "Customers" and "Talents" on pages 44 to 59 and pages 60 to 77 of this annual report respectively.

Customers

For the residential market, HKBN believes a strong customer engagement strategy will foster brand growth and loyalty. Providing a high-quality customer experience is an important component in our strategy. In a customer-in way, great customer service is not just about making the customer happy, but to make life easier for them. Our dual 14-day cooling-off periods and 180-day deferred start bill option for designated services let customers enjoy peace-of-mind after service registration and after service installation has completed.

To make customer experiences as quick and effortless as possible, HKBN stays on top of the latest customer service trends by investing in multichannel support technology. Self-service portals, payment kiosks, dynamic interactive voice response system, interactive and organised FAQ section are in place for customers who prefer to solve their own problems without having to interact with a sales or service agent. Customers who prefer human interaction can contact us easily through live chat, social media, telephone, email or correspondence. Armed with complete and real-time information about customers via our Customer Relationship Management ("CRM") system, customer requests are dealt promptly on first contact. We encourage customers to interact and share their feedback with us. Customer satisfaction surveys are in place to measure customer's satisfaction level with our company's products, services or experiences.

Since 2016, our Residential Service Hotline Service has been granted service Quality Management Certificate ("HKQAA"). Additionally, we won five Corporate Gold Awards ("HKCCA") in 2018:

- Mystery Caller Assessment Award – Residential Service Hotline (six consecutive years)
- Mystery Caller Assessment Award – Residential VIP Hotline (four consecutive years)
- Mystery Caller Assessment Award – Online Customer Service
- Mystery Caller Assessment Award – Number Porting Hotline
- Mystery Caller Assessment Award – Number Porting Hotline – Best IVRS

In addition, we received around 2,500 written compliments praising the outstanding work of our customer service agents and service technicians throughout the years. All these are indicative of our high-quality services and commitment to customers.

For the enterprise market, customers today are demanding greater mobility in their telecom services, more product options, customised with total solutions and better ways to connect with their business and operations round-the-clock. To meet the needs for a broad array of customers across different sectors and markets, ranging from local retailers, SMEs to multinational corporates as well as international carriers, our highly motivated and engaged Enterprise Solutions teams are striving to improve the overall quality of our services and enhance the agility of our service processes. To meet this challenging business environment, we continued to invest to improve our digital capabilities and are always looking for ways to enhance pre-sales and after-sales processes aimed at delivering qualities services.

With the merger with WTT, we believe an agile approach to customer processes is what we need to support enterprise customers while offering total business solutions. Last year, we started working with our world class CRM solution partner to prepare for the journey to embrace the coming changes and enable the full integration of customers data for end-to-end customer experience and plan for digitalisation initiatives in the coming two years.

Details of our customer-focused initiatives are set out in the chapter headed "Customers" on pages 44 to 59.

Suppliers

HKBN is committed to conducting our supplier procurement activities with the highest standards of quality and integrity. Our Procurement Policy sets out a consistent approach with comprehensive guideline which we require all Talents to comply with when undertaking any sourcing activities. Diversity of sourcing is essential to driving our vision in making Hong Kong a better place to live. Whenever possible, HKBN prefers any opportunity to diversify partnerships with a proclivity to choose social enterprise suppliers.

With the strong foundation set by our corporate core value, sustainable procurement plays an important role in our Corporate Social Investment strategy which is expounded in our Group's Procurement Policy. We expect our suppliers either to comply with our Supplier Code of Conduct or have their own business code of conduct that meets our requirements and a similar approach is expected for their suppliers and subcontractors.

The Group has introduced criticality assessment and added measurements and considerations on supplier sustainability concerning Environment, Labour, Health and Safety in our supplier selection processes. More information about our Group's Procurement Policy and approaches is set out in the chapter headed "Suppliers" on pages 78 and 81 of this annual report.

Compliance with Applicable Laws and Regulations which have a Significant Impact on the Group

The Group and its activities are subject to various applicable legal and regulatory requirements. They include the Telecommunications Ordinance (Cap. 106), the Trade Descriptions Ordinance (Cap. 362), the Personal Data (Privacy) Ordinance (Cap. 486), the Competition Ordinance (Cap. 619), the Employment Ordinance (Cap. 57) and the Listing Rules. Through the implementation of various internal controls and approval procedures, and appropriate in-house training provided to different units within the Group, the Company has complied in all material respects with all relevant laws and regulations that have significant impact on the operations of the Group for the year ended 31 August 2019. During the year ended 31 August 2019, the Group has organised training sessions on "Overview on Intellectual Property Law" for managerial and above level Talents from all departments, as well as for Talents of Marketing and Talent Engagement departments. Likewise, training on "What You Need To Know About Competition Ordinance" was undertaken by managerial and above level Talents from all departments.

Personal Data Privacy Ordinance ("PDPO")

The Group's collection, holding, processing or use of personal data in its usual and ordinary course of business is required to comply with relevant requirements of the PDPO. To prevent a breach of personal data from occurring, protective measures as well as training sessions and meetings with relevant business and operation units had been held to ensure that we are securely equipped and compliant with the law.

Telecommunications Ordinance ("TO")

As licensees under the TO, and in the interests of the public, the Group is required to operate in compliance with the TO and relevant licence conditions including providing satisfactory level of service, certain interconnection services and share facilities owned by them. If licensees fail to comply with the TO or relevant licence conditions, fines may be imposed by the Communications Authority ("CA").

Trade Descriptions Ordinance ("TDO")

The CA has concurrent jurisdiction with the Customs and Excise Department in the enforcement of the TDO. False trade descriptions of goods and services, misleading omissions, bait advertising, etc., are prohibited under the TDO. If any of the aforesaid offences are committed, it may result in criminal prosecution and fine and imprisonment may be imposed. To ensure compliance with the TDO, all sales and marketing materials are reviewed to ensure compliance and refresher training sessions are offered to sales and marketing units from time to time.

Competition Ordinance ("CO")

The CA has concurrent jurisdiction with the Competition Commission ("CC") in the enforcement of the CO, namely, in relation to telecommunications and broadcasting licensees. Under the CO, agreements or concerted practices between undertakings that have the object or effect of preventing, restricting or distorting competition in Hong Kong are prohibited. Likewise, an undertaking that has a substantial degree of market power is also prohibited from abusing its power through engaging in conduct that has the object or effect of preventing, restricting or distorting competition in Hong Kong. Failure to comply with these competition rules could result in the Competition Tribunal imposing a fine of up to 10% of the gross Hong Kong turnover of the Group (up to three years) and Directors may be disqualified for up to five years. To ensure compliance with the CO, training sessions were conducted for all business units before the CO came into effect on December 2015, a further update session was conducted in September 2017 for managerial and above level Talents whilst a compliance guideline manual was prepared for Talents involved with sales, marketing, business tenders, pricing, contracts and strategy formation.

Consolidated Financial Statements

The financial performance of the Group for the year ended 31 August 2019 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 127 to 233 of this annual report.

Recommended Dividend

The Directors now recommend the payment of a final dividend of 36 cents per ordinary share (2018: 30 cents per ordinary share) to the shareholders on 6 January 2020, amounting to approximately $472,176,000 (2018: $301,700,000).

The dividend policy of the Company is to pay dividends in an amount of not less than 90% of the AFF with an intention to pay 100% of the AFF in respect of the relevant year/period, after adjusting for potential debt repayment, if required.

The dividend will be funded by the contribution of the Group (including the four months AFF contribution from WTT Group) and the surplus cash accumulated at WTT Group up to the completion of WTT Merger. 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 $60,235,996 based on the 36 cents final dividend per ordinary share declared by the Company for the twelve months ended on 31 August 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 final dividend. Such cash amount will be paid by the Company to the holders of Vendor Loan Notes on 6 January 2020, being the date on which the 2019 final dividend will be paid by the Company.

Subsidiaries and Joint Ventures

Details of the principal subsidiaries and joint ventures of the Group as at 31 August 2019 are set out in notes 12 and 13 to the "Notes to the Financial Statements", respectively.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 28 to the "Notes to the Financial Statements".

Financial Summary

A summary of the results and of the assets, equity and liabilities of the Group for the last five financial years/period is set out on pages 234 and 235 of this annual report.

Retirement Schemes

Details of the retirement schemes of the Group are set out in note 8 to the "Notes to the Financial Statements".

Bank Loan

Particulars of bank loan of the Group as at 31 August 2019 are set out in note 20 to the "Notes to the Financial Statements".

Donations

During the year ended 31 August 2019, the Group made charitable and other donations of approximately $1,056,000 (2018: $1,298,000).

Distributable Reserves of the Company

As at 31 August 2019, the Company's reserves available for distribution to shareholders were $5,334,175,000 (2018: $1,097,491,000).

Under the Companies Law (2018 Revision) of the Cayman Islands and the articles of association of the Company (the "Articles"), no dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution including share premium.

Directors and Directors' Service Contracts

The Directors of the Company during the year ended 31 August 2019 and up to the date of this report are:

	Name of Director
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] Mr. Teck Chien KONG [4]
Independent Non-executive Directors	Mr. Stanley CHOW [2,4,5] Mr. Yee Kwan Quinn LAW, SBS, JP [1,4,6]

Note:
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

A full list of names of the Directors of the Group's subsidiaries can be found in the Company's website at www.hkbnltd.net under "Our Company/Corporate Governance".

Currently, all Directors are subject to retirement by rotation at least every three years and re-election in accordance with the Listing Rules and the Articles. At least one-third of Directors shall retire from office every year at the Company's annual general meeting.

In accordance with article 16.18 of the Articles, Mr. Ni Quiaque LAI, an Executive Director of the Company, Mr. Zubin Jamshed IRANI and Mr. Teck Chien KONG, the Non-executive Directors of the Company, and Mr. Yee Kwan Quinn LAW, an Independent Non-executive Director of the Company, shall retire from office at the forthcoming annual general meeting and shall be eligible for re-election. All remaining Directors shall continue in office.

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

No Directors proposed for re-election at the forthcoming annual general meeting have service contracts with the Company or any of its subsidiaries which are not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 August 2019.

Directors' and Chief Executives' Interests in Securities

As at 31 August 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 SFO) which (a) were required to be notified to the Company and 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 of the Listing Rules:

Long Position

Ordinary shares of $0.0001 each in the Company

Name of Director	Number of shares held	Percentage of the issued share capital of the Company
Mr. Bradley Jay HORWITZ	450,000	0.03%
Mr. Chu Kwong YEUNG	27,086,427	2.07%
Mr. Ni Quiaque LAI	32,997,122	2.52%
Mr. Teck Chien KONG (Note 1)	236,627,451	18.04%

Note:

1. *Mr. Teck Chien KONG, through corporations directly and indirectly controlled by him, namely MBK Partners JC GP, Inc., MBK Partners JC GP, L.P., MBK Partners JC, L.P. and Twin Holding Ltd held 236,627,451 ordinary shares of the Company, in which 83,661,106 ordinary shares are under convertible instruments, and is accordingly deemed to be interested in the shares held by the aforesaid companies.*

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 31 August 2019.

Interests in Competing Business

During the year ended 31 August 2019, none of the Directors are considered to have an interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Restricted Share Unit Schemes

To attract, retain and motivate skilled and experienced Talents, the Company adopted three Co-Ownership plans, namely Co-Ownership Plan II, Co-Ownership Plan III and Co-Ownership Plan III Plus on 21 February 2015, 15 December 2017 and 4 September 2019 respectively. 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 including but not limited to Hong Kong, Guangzhou and Shenzhen.

Co-Ownership Plan II

Co-Ownership Plan II is a restricted share unit scheme adopted by the Company on 21 February 2015. The plan has a matching ratio of 7:3 (i.e. 3 restricted share units ("RSUs") would be granted by the Company for every 7 purchased shares), and the vesting schedule would also be 25%-25%-50% upon each anniversary over 3 years after the date of grant. The maximum investment amount of each participant is limited to one year of the annual compensation package.

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"), the date on which the Company was listed on the Stock Exchange 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 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.

As at 31 August 2019, we now have over 330 Co-Owners, representing a majority of our supervisors and above level Talents which constitutes over 7% of our entire workforce. On their own volition, they invested their personal savings in the amount of between two to 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.

Details of movements of the Co-Ownership Plan II during the year ended 31 August 2019 are as follows:

		Number of RSUs								
								To be vested on 24 January/30 January/26 February/20 July (As at 31 August 2019)		
Participants	Date of grant	Granted	As at 1 September 2018	Granted during the year	Forfeited during the year	Vested during the year	As at 31 August 2019	2020	2021	2022
Other Participants	20 November 2015	158,567	3,239	–	–	3,239	–	–	–	–
Chu Kwong YEUNG	20 June 2016	194,556	97,278	–	–	97,278	–	–	–	–
Ni Quiaque LAI	20 June 2016	134,241	67,121	–	–	67,121	–	–	–	–
Other Participants	20 June 2016	1,752,685	705,543	–	48,472	657,071	–	–	–	–
Other Participants	24 January 2017	400,472	263,190	–	38,658	75,693	148,839	148,839	–	–
Other Participants	20 July 2017	252,635	166,814	–	–	55,599	111,215	111,215	–	–
Other Participants	30 January 2019	329,330	–	329,330	37,238	–	292,092	73,006	73,006	146,080
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	124,368	956,001	678,556	364,651	104,597	209,308

Co-Ownership Plan III

To provide additional means for the Company to incentivise Talents and to recognise the continual support of relevant Talents to the Group and their effort in promoting the Group's long-term growth and development, the Company adopted the Co-Ownership Plan III on 15 December 2017. Please refer to the announcement of the Company dated 2 November 2017 and the circular of the Company dated 16 November 2017 for details of the Co-Ownership Plan III.

However, by reason of (i) the occurrence of an M&A event (i.e. WTT Merger) and that the aspirational target of the adjusted available cash per share for distribution is different for the enlarged group after the WTT Merger and (ii) no grant of restricted share unit has been made under the plan since its adoption, on 21 June 2019, the Board resolved to terminate the Co-Ownership Plan III (pursuant to the terms of the Co-Ownership Plan III), and to adopt the Co-Ownership Plan III Plus as a replacement.

Co-Ownership Plan III Plus

Co-Ownership Plan III Plus is a replacement of Co-Ownership Plan III which was adopted by the Company on 4 September 2019.

Under the Co-Ownership Plan III Plus, the granting of the RSUs to the eligible participants depends on the level of the adjusted available cash per share for distribution achieved, on a cumulative basis, during the 2019, 2020 and 2021 financial years. The minimum level of the adjusted available cash per share for distribution required to be achieved by the Company before any RSU will be granted is an amount in excess of $2.53 on a cumulative basis over the 2019, 2020 and 2021 financial years of the Company. If the adjusted available cash per share for distribution, on a cumulative basis, over the 2019, 2020 and 2021 financial years of the Company reaches $3.03, RSUs will be granted to the grantees on the basis that the grantees would, subject to the satisfaction of the vesting conditions and on the vesting date, receive 1.33 award share for every purchased share. The granting of the RSUs will occur earlier than the publication of the annual results of the Company for the 2021 financial year if the maximum targeted accumulated adjusted available cash per share for distribution is achieved prior to the end of the 2021 financial year. Accumulated adjusted available cash per share for distribution in excess of $3.03 will not give rise to any further entitlement.

Additionally, Co-Ownership Plan III Plus also contains a Corporate Social Investment element whereby the HKBN Talent CSI Fund Limited (the "Charitable Fund") is included as a participant in the scheme. Pursuant to the scheme rules of Co-Ownership Plan III Plus, the Executive Directors of the Company agree to donate a total of 4,000,000 shares to the Charitable Fund. With their contributions to the Charitable Fund, the Co-Ownership Plan III Plus would reserve RSUs to be contributed to the Charitable Fund with respect to the 4,000,000 shares donated by the Executive Directors, and such RSUs will entitle the Charitable Fund to receive not more than 5,320,000 awarded shares under the terms of the scheme. Talents may, at their own discretion, make contributions to the Charitable Fund by directing the plan trustee to transfer any part of their awarded shares receivable upon the vesting of the RSUs to the Charitable Fund. The Company considers that this charitable element of the scheme would support the Company's core purpose of making our Hong Kong a better place to live.

Please refer to the announcement of the Company dated 21 June 2019 and the circular of the Company dated 29 July 2019 for details of the Co-Ownership Plan III Plus.

As at 31 August 2019, there are approximately 1,000 Talents that are eligible to participate in Co-Ownership Plan III Plus, representing approximately 24% of the total number of existing employees of the Group and no invitations or grants under the Co-Ownership Plan III Plus have been made.

Arrangements to Purchase Shares or Debentures

Saved as disclosed in the "Restricted Share Unit Schemes" above, at no time during the year ended 31 August 2019 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 31 August 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	13.91%
GIC Private Limited	(b)	87,284,797	6.65%
The Capital Group Companies, Inc.	(c)	72,989,500	5.57%
Matthews International Capital Management, LLC	(d)	71,121,908	5.42%
David BONDERMAN	(e)	236,627,451	18.04%
James George COULTER	(f)	236,627,451	18.04%
Michael ByungJu KIM	(g)	236,627,451	18.04%
Teck Chien KONG	(h)	236,627,451	18.04%

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, 6,664,500 ordinary shares and 62,186,000 ordinary shares of the Company respectively, and is accordingly deemed to be interested in the respective ordinary shares held by the aforesaid companies.*

(d) *71,121,908 ordinary shares are controlled by Matthews International Capital Management, LLC in the capacity of investment manager.*

(e) *Mr. David BONDERMAN, through corporations directly and indirectly controlled by him, namely TPG Asia Advisors VI, Inc. and TPG Wireman, L.P., held 236,627,451 ordinary shares in the Company, in which 83,661,106 ordinary shares are under convertible instruments, and is accordingly deemed to be interested in the shares held by the aforesaid companies.*

(f) *Mr. James George COULTER, through corporations directly and indirectly controlled by him, namely TPG Asia Advisors VI, Inc. and TPG Wireman, L.P., held 236,627,451 ordinary shares in the Company, in which 83,661,106 ordinary shares are under convertible instruments, and is accordingly deemed to be interested in the shares held by the aforesaid companies.*

(g) *Mr. Michael ByungJu KIM, through corporations directly and indirectly controlled by him, namely MBK GP III, Inc., MBK Partners GP III, L.P., MBK Partners Fund III, L.P., MBK Partners JC, L.P. and Twin Holding Ltd held 236,627,451 ordinary shares of the Company, in which 83,661,106 ordinary shares are under convertible instruments, and is accordingly deemed to be interested in the shares held by the aforesaid companies.*

(h) *Mr. Teck Chien KONG, through corporations directly and indirectly controlled by him, namely MBK Partners JC GP, Inc., MBK Partners JC GP, L.P., MBK Partners JC, L.P. and Twin Holding Ltd held 236,627,451 ordinary shares of the Company, in which 83,661,106 ordinary shares are under convertible instruments, and is accordingly deemed to be interested in the shares held by the aforesaid companies.*

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 31 August 2019.

Related Party Transactions

Certain related party transactions as disclosed in note 34 to the "Notes to the Financial Statements" for the year ended 31 August 2019 did not constitute connected transaction or continuing connected transaction as defined under Chapter 14A of the Listing Rules.

Connected Transactions

On 21 June 2019, the Board approved to adopt the Co-Ownership Plan III Plus as a replacement of Co-Ownership Plan III to attract, retain and motivate skilled and experienced Talents. After getting the approval by the independent shareholders at the extraordinary general meeting of the Company on 19 August 2019 and the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new shares under the RSUs of the Company in September 2019, the Company adopted the Co-Ownership Plan III Plus on 4 September 2019.

According to the Co-Ownership Plan III Plus, the Company may invite all the eligible Talents to participate the scheme, which includes 8 connected participants who are directors or chief executive of the Company, or directors or chief executive of the Group's subsidiaries as at 23 June 2019. As the connected participants are connected persons of the Company, the granting of any RSU to the connected participants under the Co-Ownership Plan III Plus would constitute connected transaction of the Company under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 21 June 2019 and the circular of the Company dated 29 July 2019 for details.

Major Customers and Suppliers

For the year ended 31 August 2019, the aggregate amount of revenue attributable to the Group's five largest customers were approximately 8.8% of the Group's total revenue and the revenue attributable to the Group's largest customer were approximately 2.8% of the Group's total revenue.

For the year ended 31 August 2019, the aggregate amount of purchases and costs incurred attributable to the Group's five largest suppliers were approximately 40.8% of the Group's total purchases and costs incurred, and purchases and costs incurred from the largest supplier accounted for approximately 14.9% of the total purchases and costs incurred.

At no time during the year, did a Director, an associate of a Director or a shareholder of the Company, which to the knowledge of the Directors owns more than 5% of the Company's issued share capital, have an interest in the share capital of any of the five largest customers or suppliers of the Group.

Update on Directors' 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 2019 interim report are set out below:

Mr. Teck Chien KONG, a Non-executive Director of the Company, is appointed as a director of Wendu Education & Technology Group Limited and certain of its group companies with effect from 31 July 2019.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 August 2019.

Directors' Emoluments and Five Highest Paid Individuals

The emoluments of the Directors of the Company are recommended by the Remuneration Committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. Details of the remuneration of the Directors and those of the five highest paid individuals of the Group for the year ended 31 August 2019 are set out in notes 5 and 6 to the "Notes to the Financial Statements", respectively.

Pre-emptive Right

There are no provisions for pre-emptive rights under the Company's Articles, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the chapter headed "Corporate Governance Report" on pages 102 to 116 of this annual report.

Sufficiency of Public Float

On the basis of information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 August 2019 and up to the date of this annual report.

Indemnity of Directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the Directors of the Company is currently in force and was in force throughout this year.

Subsequent Event

On 23 August 2019, HKBNGL (as purchaser) and JTH (as seller), amongst others, entered into the Share Purchase Agreement, pursuant to which, among other things, HKBNGL has conditionally agreed to purchase, and JTH has conditionally agreed to sell, the entire issued share capital of the Target Companies for a consideration of US$50,000,000 (equivalent to $393,500,000) in cash (subject to certain closing and post-closing adjustments). Jardine Technology Holdings Limited has agreed to guarantee to HKBNGL the proper and punctual performance by JTH of its obligations under the Share Purchase Agreement. MLCL has agreed to guarantee to JTH the proper and punctual performance by HKBNGL of its obligations under the Share Purchase Agreement. Upon satisfaction of the condition precedent(s) as set out in the Share Purchase Agreement, the Target Companies will become direct wholly-owned subsidiaries of HKBNGL and indirect wholly-owned subsidiaries of the Company. The proposed transaction was not yet completed as at the date of this annual report and no adjustments have been made to this annual report as a result of the above event.

On 16 September 2019, MLCL completed a conditional redemption of 10% of the senior notes due 2022 at a redemption price of 103% plus accrued and unpaid interest. Immediately upon the completion of the conditional redemption, US$603,000,000 (equivalent to $4,745,610,000) in aggregate principal amount of the senior notes remained outstanding. The redemption was completed using the Group's internal resources.

On 25 September 2019, Hong Kong Broadband Network Limited, an indirect wholly-owned subsidiary of the Company, obtained a $1,000,000,000 uncommitted revolving loan facility from a bank in Hong Kong that bears interest at Hong Kong Inter-bank Offered Rate plus a margin per annum on the utilised amount.

Professional Tax Advice Recommended

If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

Auditor

The financial statements have been audited by KPMG who shall retire and being eligible, offer itself for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Mr. William YEUNG
Executive Director
Hong Kong, 24 October 2019

Elaine Lau
Shop Ambassador

Better for Customers

Every day, we connect customers with all the best possibilities offered by the digital world. And we do it tirelessly with a smile.

Customers

Mindful that our success begins with customers, we work endlessly not only to inject disruptive features and appeal across our products, services, solutions and experiences, but we also make sure factors like reliability, transparency, quality and safety are embedded in all our offerings.

Service Reliability

Reliability of our services is an important attribute that helps reinforce customer trust in HKBN.

Network Performance

To ensure that our fibre network service is outstanding and reliable, HKBN's Network Operation Centre ("NOC") works around-the-clock to monitor and manage our performance. In FY19, overall network availability was at 99.9864% for residential customers. For our enterprise customers, network availability reached 99.9985%. With the integration of WTT, we standardised operational workflow for better alignment across our various NOCs beginning in FY20.

Protocols and escalation guidelines are in place to ensure rigorous monitoring of network performance across different service platforms. Above all, our prime objective is to mitigate any impact or potential impact to customers, as well as ensure timely communication with affected stakeholders. In addition, we're developing a Centralised Alarm System ("CAS") to better consolidate our existing alarms protocols for improved network surveillance capabilities and effectiveness.

On 8 June 2019, some customers experienced an IP telephony and Internet service degradation caused by software instability of the route processors. The problem was fixed by the vendor on the same day. In order to prevent reoccurrence of similar incidents, we undertook a thorough review and enhancement measures across our entire network and all relevant systems supported by the vendor. We have also commenced an exercise to review, audit and enhance network architecture, configuration and vendor diversity.

99.9985%
network availability for enterprise customers

99.9864%
network availability for residential customers

Customers

▲ Maintaining service reliability is a critical part of Calvin Tam's (our District Service Engineer) daily responsibilities.

▶ During on-site service visits, Talents like HKBN Service Technician Wong Wing-hong count on exceptional technical know-how to assist customers.

Expanded Network Coverage

To make our high-value services more widely available for households and companies, we continued expanding our fibre network coverage across different parts of Hong Kong. In FY19, we extended our coverage to over 62,000 additional homes, 23% of which are in rural areas, including villages not previously served by high-speed fibre broadband services. To facilitate growth of our Enterprise Solutions business, 334 commercial buildings were added to our network coverage this year, in addition to the network coverage of WTT. As at the end of FY19, our fibre network reached a total of about 2.4 million homes and over 7,200 commercial buildings and facilities in Hong Kong.

Network Improvements & Upgrades

As our fibre network remains a vital aspect of HKBN's business, we invest considerable effort and resources to maintain reliability as well as future-proof its capabilities. During the reporting period, the following measures were undertaken:

- Streamlined network operations and holistically upgraded resilience levels (phasing in multi-vendor IP core network)
- Restructured operations by creating two dedicated NOCs to explicitly focus on Residential Solutions and Enterprise Solutions needs
- A new 5G mobile backhaul network infrastructure is being built to meet 5G rollout needs from mobile network operators
- Launched Hong Kong's first carrier hosted SIP trunk to enable voice for Microsoft Teams direct route solution
- Launched 2Gbps broadband service with Home Gateway
- Developed automated service provisioning to reduce provisioning lead time
- Offer customers tri-carrier network diversity, providing ultra-high network resilience and network reliability

Integrating for Growth

▲ Our agile MIT comprised a broad range of elite Talents from both HKBN and WTT.

Immediately after merging with WTT, we identified everything that needed to be done and structured a special Merger Integration Team, comprising representatives from each key function layer of HKBN and WTT, led by Billy Yeung, our Co-Owner and CEO – Enterprise Solutions. Moving as quickly as possible and without losing objectivity about crucial priorities, our task force worked through the complications to align and synergise two distinct entities across a broad spectrum of specialties that are crucial to our service quality and business development.

Merger Integration Team (MIT)

Any kind of business integration process involves a large number of decisions and processes running concurrently in a relatively short time frame – and ours was an accelerated one of just four months (early May to late August 2019). As such, decisions must be closely coordinated with priorities aligned. Mindful of these challenges, MIT was formed as a close working team to actively ensure everyone is always on track, is adequately supported or has the resources they need. Weekly meetings were held throughout the process to ensure timelines and milestones are met on 30-day, 60-day, 100-day plans.

MIT adopted the following principles in the integration process:

- Integrate for growth (not just for operational synergies and cost-savings)
- Clearly define MIT responsibilities and key tasks
- Maintain mutual respect for Talents from both companies
- Identify restructure leaders and their key functions
- Adhere to strict timelines

Time taken to complete integration after merger

* *Due to lessons learned from NWT integration in 2016*

“From day one, our plan was not just to achieve operational synergy in terms of scale or scope, but rather to enhance HKBN Enterprise Solutions' (“HKBNES”) upside for growth. A good example is how we've been able to leverage WTT's substantially-invested network infrastructure into a competitive advantage. We're creating new opportunities to engage business customers who desire ultra-high resilience with Hong Kong's first-ever tri-carrier fibre network – powered by networks from HKBN, NWT and WTT. Through this integration, we've crucially expanded our Talent base with comprehensive professional expertise that strengthens HKBN Group's scope of capabilities to deliver the very best end-to-end ICT solutions for customers of all sizes and industry sectors in Hong Kong.”

Billy Yeung
Co-Owner and CEO – Enterprise Solutions

Customers

▲ As part of our integration efforts, a new tagline – Unleashing the Power of Business – was introduced for HKBN Enterprise Solutions.
▶ (From left) Our new Enterprise Solutions commanders are Karina Tsoi, Henry Li, Mikron Ng, Doris Chan, Adrian Watt, Andy Lau and Clio Ip.

▲ With adverts placed throughout Hong Kong's busiest CBD areas and public transport, we asserted our ambition to become the ICT solutions provider of choice.

Key tasks completed:

- WTT renamed as HKBN Enterprise Solutions HK Limited
- Analysis and integration of customer profiles and accounts (we now have 103,000 enterprise customers, up from 57,000 in FY18)
- Integration for tri-carrier network diversity
- Product/service portfolio reviewed, consolidated and integrated for maximum synergy
- Operations, business support and customer service aligned
- Talent remuneration and benefits aligned
- IT system and platform reviewed and integrated
- Financial reporting and billing consolidation

▲ Almira Chan, Chief Strategy Officer and Clio Ip (right), Co-Owner and Director – Mobile Business, Enterprise Solutions were instrumental co-leaders of MIT.

"All the key integration tasks were completed extremely fast – about four months. Whilst both companies were different in terms of culture and the way we operated, the process was smooth because we afforded much consideration to our Talents. Early on, we identified leaders out of the restructure and worked together with these key stakeholders to adjust our integration plan based on emergent needs, for maximum effectiveness. Throughout the integration process – as a Talent-first company – we made sure to engage Talents, via various meetings and talks organised by our Talent Management and other functional teams, to ease nervousness about how they would fit into the 'new' organisation. Because HKBN's entrepreneurial culture is built around Talents and unleashing their potential, bridging the gap between both companies and getting buy-in was high on our list of priorities."

Clio Ip
Co-Owner and MIT Co-Leader

Reliable Partners, Reliable Service

For the interest of our customers, we work closely with business partners to maintain reliability of our varied services. SmarTone and China Mobile Hong Kong ("CMHK"), the two Mobile Network Operators ("MNO") who support our Mobile Virtual Network Operator ("MVNO") service, promise to provide the same level of service quality as they would for their own mobile customers.

Our Network Operation Centre maintains close communication with the corresponding network operation centres of the abovementioned MNOs to get timely mobile service performance updates. For OTT services, apart from direct NOC-to-NOC communication, we undertake regular technical reviews and receive quarterly reports from TVB, our OTT platform partner. Service Level Agreements ("SLA") and network escalation procedures with key business partners exist which help shorten recovery time and minimise impact during service interruptions, outages or other issues. To safeguard service reliability and continuity, business partners are stipulated to maintain service quality via clearly-defined terms for service availability, stability, support and system maintenance response obligations. In relationships where we provide network services for our partners, we maintain similar agreement obligations and measures to ensure reliability and continuity. And when networking issues arise, we provide backup support as needed.

Reliability on the Frontlines

Our Certified Professional Engineers ("CPE") team is responsible for installation and maintenance of our broadband service. To gauge the quality of service provided by our residential CPE Talents, electronic surveys are automatically sent one day after every installation or maintenance visit completed. In FY19, our team received an average overall customer satisfaction score of 5.64 out of 6 (5.61 out of 6 in FY18).

customer satisfaction score for our Certified Professional Engineers

▲ Our highly trained CPE Talents are fully committed to serving customers with excellence, dependability and expertise.

Customers

Serving on the frontlines means our CPEs are also uniquely positioned to respond to recurring customer issues and even pre-empt them. In FY19, our CPE team proactively visited a total of 116 residential buildings to perform pre-emptive maintenance. Choosing sites that have had the highest ratio of maintenance orders, these free-of-charge visits saw our CPEs perform inspections on equipment and cabling – and remedies as they are needed.

Service Affordability

True to our Core Purpose to "Make our Hong Kong a Better Place to Live", we believe broader accessibility to world class telecommunications is essential in a strong, prosperous society. For this reason, we continue to set the price ceiling for our 100Mbps residential fibre broadband service at 1% of Hong Kong's median household income.

▲ To promote our Microsoft Cloud-based Phone System bundle offer, we launched a strategic marketing blitz aimed at a broad spectrum of business customers.

As a company committed to bringing customers the best value for their money, we constantly track, analyse and benchmark market trends. But rather than follow legacy market practices, our disruptive DNA has led us to tailor services for the benefit of consumers.

During the reporting period, we undertook the following to enhance the value-for-money appeal of our services:

- Working closely with our MNO and OTT partners, we offered mobile customers 12/24 months free access to enjoy entertainment content via the myTV SUPER App (a value of $68/month)
- Starting from 1 April 2019, our CMHK mobile customers can enjoy free 5GB or even unlimited local data per month to watch content via the myTV SUPER App
- In collaboration with Microsoft, we offered Hong Kong's first MS Cloud-based Phone System to enterprise customers at the price of $928 for 100Mbps broadband, three Microsoft 365 licenses and three phone systems
- A special pricing discount for our Microsoft bundle was offered to NGOs, social enterprises and members of Hong Kong Council of Social Service ("HKCSS")

As a socially engaged company, we fully support the contributions made by NGOs and social enterprises. To play our part, we offer special pricing of our services to NGOs, underprivileged people, members of the HKCSS, one of the largest social welfare organisations affiliated with over 460 social welfare agency members, and more. For more details, please refer to page 87 of this report.

Customers

Customer Privacy

Our customers trust us with their personal data, and we take data privacy protection as a top priority. We have a stringent privacy policy governing how we collect, use and manage customer information. Our Internal Audit and Risk Department also commissions certified professionals to conduct periodic reviews of our security systems. Customers can pose their enquiries or complaints about data privacy via telephone hotline, email, fax or letter. We target to investigate and respond to enquiries within seven days.

As a result of strong, decisive measures introduced last year to implement industry-leading data collection and retention practices, as well as a comprehensive series of network security enhancement initiatives, we no longer store full credit card numbers. We have completely removed from our database 6 digits (out of the full 16 digits) for credit card numbers belonging to our existing customers and practice 'tokenisation' to limit the exchange of sensitive data when processing credit card payments. Furthermore, we altered the way each customer's Hong Kong Identity Card ("HKID") number is stored. To this end, HKID numbers are now only partially visible via our front-line system.

During the reporting period, we further strengthened our information security capabilities via the following:

- Chartered an information security consultant to introduce a long-term risk assessment process that can better predict and prevent cybersecurity threats
- Conducted numerous tests to check HKBN's response to unexpected cyber attacks
- Redesigned and implemented the network infrastructure enhancements based on the audit recommendations made by our external security consultant

Mindful that Talents have a critical role in protecting both HKBN and our customers' data, we focused heavily on training and augmenting security awareness. In FY19, the following initiatives were implemented:

- A total of seven phishing awareness assessments were conducted for all HKBN Talents. As a result of these seven assessments, our Talents showed clear improvements in their awareness towards phishing emails. During the first phishing email assessment conducted in April 2019, 8.3% of Talents were duped by our exercise, while an average of 5.8% of Talents failed our last three assessments conducted in July and August 2019. To further improve our phishing vigilance, more training of this kind will be initiated throughout FY20
- Two Cyber Security Roadshow sessions were held in March 2019 to arouse mass awareness with over 600 Talents attending in-person or viewing the live-webcast
- Since July 2019, all ex-WTT Talents (integrated as part of our WTT Merger) in Hong Kong and mainland China, and new joiners must undergo security awareness training and pass our examination

2,733 hours
cyber security training

Customers

Following the incident of unauthorised access to an inactive database which occurred in April 2018, the Privacy Commissioner for Personal Data published an investigation report on the incident and issued an enforcement notice on 21 February 2019, wherein Hong Kong Broadband Network Limited was required to take specified actions within 90 days. In May 2019, we have fulfilled those requirements and reported them to the Privacy Commissioner for Personal Data.

During the reporting period, there was no other substantiated legal case of non-compliance with the related laws and regulations.

Innovation

To augment our speed and flexibility for change, we continued to embrace the Agile methodology, a development approach which enables projects to evolve collaboratively, and importantly, quickly respond to evolving market requirements. This is helping to pave the way for faster delivery and continual improvements of our products and services.

Taking advantage of technology and software advancements, we're also deploying tools like AI, cloud and data analytics for wide-use applications that boost productivity, operational efficiency and enhance overall customer experiences.

In a highly unique way, our pain/GAIN initiative adopts an entrepreneurial risk/reward approach that encourages our Talents to put innovative ideas into practice. Whenever Talents feel extra confident about an out-of-the-box idea, we invite them to back the execution of their plans by investing part of their salary. Like our approach to Co-Ownership, this scheme potently delivers alignment between Talents and shareholders (refer to page 10 for details).

Altogether, these measures serve as foundations to supercharge – and even reinvent – how we disrupt legacy practices.

Home Gateway 2.0

In November 2018, we launched the new Home Gateway, an unprecedented service that combines 2Gbps broadband, Wi-Fi capabilities, home telephone functionality, HomeGuard Network Security and Parental Control in one easy to use device. Powered by Trend Micro, a global leader in threat intelligence and security solutions, the embedded HomeGuard service redefines home network security with built-in enterprise-level protection, as well as parental controls so that children are properly safeguarded from cyber risks and threats.

Working in collaboration with Disney, we rolled out a city-wide campaign asking consumers to vote for their favourite limited-edition Home Gateway designs, featuring iconic Disney and MARVEL characters. As a result, four stunning Home Gateway designs were chosen (two launched in September 2019 and two more are set to launch in November 2019). Along with these highly desirable designs, Home Gateway was further expanded with new offers and bandwidth options for both 1Gbps and 2Gbps service.

▲ In collaboration with Disney, we introduced an all-new look for routers with ultra-cool Home Gateway designs featuring Toy Story and MARVEL characters.

Customers

More for Customers

To improve desirability of our offerings, throughout FY19 we worked to deliver a wide variety of enhancements and premium bundles. These include:

- myTV SUPER free upgrade for over 10,000 customers to enjoy premium content (Sony, BBC, Blue Ant, and more)
- January 2019: we bundled thousands of free movie tickets with our mobile service plans
- March 2019: we launched a variety of new international sports content (beIN Sports, NBA, etc.)
- March 2019: we launched new movie and documentary content (Hollywood Movie, Gold Scene, Discovery)
- April 2019: myTV Gold package was launched to replace our Supreme Package with a higher variety of content
- April 2019: our CMHK mobile customers can enjoy free 5GB/unlimited monthly local data to watch content on myTV SUPER App
- July 2019: we bundled thousands of free movie tickets with our mobile service plans
- In collaboration with myTV SUPER, we offered our Enterprise Solutions customers significant discount coupons to advertise commercials on myTV SUPER
- In collaboration with big big channel, we offered our Enterprise Solutions customers significant discount coupons for promotional event hosting/ management solutions by big big channel

Tri-carrier Network Diversity

Following our completed integration with WTT, we are now the only service provider in Hong Kong with the capabilities to offer tri-carrier fibre networks (HKBN + NWT + WTT). Leveraging this as a competitive advantage, we are now uniquely positioned to offer business customers a cost effective network diversity solution which automatically mitigates the risk of Internet and data connectivity interruption.

HKBN Enterprise Solutions Cloud Services

Over the past several years, we've worked hard to establish ourselves as a leader in digital and cloud services. The opportunities to help enterprises – small, medium and large – achieve far better performance and efficiencies are spurring an accelerated focus from us to deliver on Hong Kong's inevitable digital transformation.

Following our May 2018 acquisition of ICG, which was rebranded (since October 2019) as HKBN Enterprise Solutions Cloud Services, we've built on our strengths to provide complete end-to-end professional multi-cloud consulting, implementation and managed services.

To help customers innovate by taking full advantage of the powerful capabilities, our Cloud Services business focuses on the following:

Public Cloud

We provide comprehensive services in multi and hybrid cloud selection, architecture design and deployment.

Cloud Solutions

Combining our unique tri-carrier advantage in connectivity with cloud, mobility and data centre capabilities, we can move up the stack from managed services to a variety of advanced cloud solutions that range from infrastructure to the application layer. This includes Connectivity + Cloud, Storage + Data Platform, Next-gen AI-based Cloud Security, and Cloud Native Development.

Digital Journey Transformation

Through cutting-edge expertise, we help enterprises identify their IT strengths and weaknesses – and close the gap via cloud transformation.

Fair And Transparent Sales & Marketing

Our long term success is built on a relationship of trust and integrity. For this crucial reason, our objective is to ensure that customers can make well informed decisions when choosing our products, services and solutions.

Standard policies and procedures are in place to ensure that all our marketing materials are compliant with the Trade Descriptions Ordinance, intellectual property laws and other pertinent ordinances. Before any marketing material is made available to customers, they must first be properly vetted and approved by our legal and/or senior management teams.

During the reporting period, there was no substantiated case of non-compliance against relevant advertising regulations.

To further enhance customer access and understanding of our pricing, charges and more, continuous improvements were made to our online platforms in FY19. These include:

- For Enterprise Solutions customers, we developed an online platform which provides transparent pricing for our products and services
- In January 2019, we invited a legal consultant to share tips and advice on the legal pitfalls on pertinent topics like Trade Descriptions, Defamation, Copyright & Trademark infringement
- In September 2019, we introduced an online acquisition portal where enterprise customers can now easily subscribe to bundle offers of Business Broadband, Business Voice, and Mobile Services

Selling Responsibly

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

All our sales-related Talents are required to undergo comprehensive training covering product/service knowledge, sales techniques, company policy 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 provided 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.

As a further safeguard, performance of our frontline sales teams is carefully monitored by team leaders as well as our Quality Management team. Internal policy and procedures ensure disciplinary actions are enforced whenever a Talent deliberately gives misleading information or behaves inappropriately.

Proper Handling of Complaints

We take customer feedback and complaints about HKBN services very seriously. Each complaint, once received, is assigned a case number and Customer Service Talent who handles investigation and follow-up. Once the investigation is completed, our Talent will provide a reply to the complainant. Cases are settled and closed after follow-up actions have been taken and the customer expresses satisfaction (within a targeted resolution time of seven days). On a daily basis, our Customer Service Talents will prepare reports of unsettled complaint cases and send them to our Customer Service management team for review and possible escalation.

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. Upon activating their subscribed service, customers can use My HKBN mobile app or our website to conveniently check information such as service contract terms and obligations, pricing, our latest offers, plan terms and conditions, and much more.

94%

of hotline calls answered during normal operating hours

Residential Customer Service:

Through our customer service hotline, online platform, email and other channels, customers can get help quickly and easily. In terms of FY19 performance, our enquiry hotline answered 94% of all calls within its normal operating hours (9am to 1am), performance for FY18 was 95%. For our online chat service, which first launched in February 2018, our target is to answer 80% of inquiries within normal operating hours (9am to 9pm). In FY19, we achieved a performance of 83%. To expand our customer service reach and effectiveness, we launched a 24x7 Facebook chatbot in January 2019 to answer basic enquiries. Since January, this service has helped 1,940 users.

For emails, our target is to respond to 95% of all customer enquiries within a 4-hour window (during normal operating hours of 9am–9pm). In FY19, we exceeded our goals with a 99% performance.

Gauging customer approval is extremely important to us. Upon completing each enquiry made to our customer service hotline, customers are asked to rate their satisfaction on a scale of 1 to 6. With a target score of 5.5 out of 6, we outperformed in FY19 with an average score of 5.71 (5.64 in FY18).

For service complaints, we follow a standard policy governing how we handle customer dissatisfaction. Our Customer Service team will carry out immediate investigation, aiming to provide a proper resolution within seven days.

▲ Like Elaine Wu, our customer service representatives are always ready with expert knowledge to answer calls.

Enterprise Solutions Customer Service:

To better address the needs of Enterprise Solutions customers, we offer various channels and convenient options where information and help can be easily accessed. These include:

- Dedicated account managers & account servicing relationship executives who oversee service and support
- Website and HKBNES e-newsletter
- Monthly e-surveys conducted to gather feedback about the quality of our products and solutions from customers

Customers

- HKBNES My Account and other managed services portals enable customers to check monthly usage, download user forms, make amendments online to service settings and account information
- Our customer service hotline answered 91% of all calls during normal working hours in FY19, an increase of 8%, compared to 83% for FY18

Improving User Experiences

Listening to customers helps us understand what they desire. The following highlights the many ways we gather practical feedback for improvement:

- Monitor and analyse market information, benchmarking global best practices
- Use our multitude of online and offline channels to collect and understand customer behaviour
- Use surveys to regularly measure and monitor customer satisfaction
- On a monthly and quarterly basis, we conduct reviews of our brand using YouGov metrics in areas like brand awareness, advertising awareness, purchase consideration, corporate reputation and more
- Service satisfaction surveys are conducted on a quarterly basis to monitor customer feedback on a range of experiences for both mobile and fixed broadband services (for full details, please refer to the chart provided below)
- Enterprise Solutions customers are regularly invited to participate in our e-surveys and comprehensive telephone surveys
- In FY19, 780 Enterprise Solutions customers provided feedback on HKBNES' products and services. The average score achieved was 7.79 out of 10 for "products in use" (an increase of 6.7%, up from 7.3 in FY18) and 7.79 out of 10 for "overall performance of products and services" (an increase of 3.8%, up from 7.5 in FY18)

Customer satisfaction survey results on HKBN mobile services (rated from 1 to 5):

	Registration procedure	SIM card redemption method	Sales' service	Network speed	Network stability	Voice quality	Customer service	Technical support	Overall Evaluation
Average rating in FY19	4.6	4.8	4.7	4.2	4.2	4.5	4.5	4.4	4.4

Customer satisfaction survey results on HKBN fixed line services (rated from 1 to 5):

	Sales' service	Customer services	Technical Support	Certified Professional Engineers	Local Network Speed	Overseas Network Speed	Network Stability	Overall Evaluation
Average rating in FY19	4.7	4.7	4.6	4.9	4.6	4.1	4.4	4.6

To further improve how we monitor and enhance service reliability, our Customer Service team keeps track of customer complaints and swiftly communicates any suspected problems with our Network Operations team to take prompt action. In the event of service outage or scheduled maintenance, we take immediate action to inform customers via announcements on our website, hotline and social media platforms.

Customer Health and Product Safety

HKBN is committed to providing products and services which comply fully with the legal and regulatory requirements for consumer safety. Towards this goal, we will only do business with ethical and environmentally responsible suppliers. This means, at a minimum, suppliers who do business with us must comply with Hong Kong's laws and regulations.

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.

In addition, new suppliers are required to provide certificates or reports from a third-party testing laboratory verifying that their products have passed relevant safety tests.

For our OTT content, we understand that a wide range of programmes are provided by our OTT partner, TVB. Viewers can select and watch these programmes via set-top box, computer or mobile device. Mindful of this, we make sure that parental controls are available for all age-restricted content.

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

Product Safety Protocol

If we receive any report of alleged safety issue with our Internet service, the case will be immediately escalated to our Network Operation Centre, who will investigate and, if needed, arrange for our Certified Professional Engineers to perform on-site inspection/maintenance within 24 hours.

Certified Professional Engineers

All HKBN broadband engineers are required to complete the following courses before we confirm them as permanent Talents:

(i) Construction Industry Safety Training Certificate

Granted by HKSAR Occupational Safety & Health Council, this certification provides the relevant health and safety training for construction industry professionals.

(ii) Safety Training

To maintain a consistent level of service and safety awareness from our CPE team, newly joined Talents are required to participate in various workshops and courses. Throughout FY19, 52 new Talents attended courses on "Emergency and Emotion Handling". Conducted by our CPE Quality Assurance team, the courses provided training on how to deal with safety incidents, the proper escalation procedures to take, and how Talents should best manage emotions when interacting with customers.

Customers

Awards and Recognition

Hong Kong Call Centre Association

HKCCA Awards 2018 – Mystery Caller Assessment Awards

- Best IVRS
- Residential VIP Hotline (Gold) (four consecutive years)
- Residential Service Hotline (Gold) (six consecutive years)
- Online Customer Service (Gold)
- Number Porting Hotline (Gold)

Economic Digest

The Best SME Partners 2018 – Corporate Telecommunications Service Provider

e-zone

e-brand awards – The Best DX Partners

Adele Chu
Senior Manager – Talent & Organization Development

Kennedy Yeung
Network Technician

Kay Wong
Senior Technical Support Executive

Talents Leading the Way

Talents are fundamental to every aspect of HKBN’s strategy and success. We prioritise enablement in every possible way to ensure our Talents live and work with purpose.

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

Total Rewards

A career at HKBN entails Total Rewards for Talents that aren't strictly monetary in nature. Our Talents know that by embracing our Core Purpose to "Make our Hong Kong a Better Place to Live", we're striving to pioneer benefits for Hong Kong society. We also uphold Talents as priority number one – substantiated by how we treat our Talents with respect, offer exceptional flexibility and employment benefits, and provide them with copious opportunities to grow professionally. By championing objectivity in our pay structure, Talents understand all contributions they make will be fairly rewarded. In an analogous way, our Co-Ownership culture gives Talents a one-of-a-kind opportunity to prosper as part owners of the company they serve.

All combined, these compelling elements ensure that HKBN Talents come to work thoroughly engaged with a sense of pride and passion to perform. From HKBN's perspective, this holistic Total Rewards dynamic is fundamental to our unique strategy of attracting, cultivating, incentivising and retaining the best Talents for success.

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 quality time with friends and family, we believe they arrive at work more motivated to perform.

additional days off annually for each Talent

For these practical reasons, we continue to provide HKBN Talents with a broad array of highly progressive leave benefits, far beyond the obligations stipulated by law. On the whole, our entitlement policies provide the equivalent of about 38 additional days off annually for each Talent. Examples of our excellent leave benefits include those for our expecting mothers who are afforded 16 weeks of full-pay leave (Hong Kong law requires only 10 weeks at 4/5th pay). Similarly, our Paternity Leave gives new dads 14 days of full-pay leave (Hong Kong law requires employers provide 5 days of paid leave). Rather than the typical 9am to 6pm schedule, our normal workday begins at 9am and ends at 5pm.

Benefits & Alignment

Ever since the WTT Merger was completed in April 2019, we began a comprehensive integration process of our two companies, aiming to harness improved operational synergies as well as to break down legacy silos between teams and departments. Over the past several months, we carried out numerous efforts, including organising Talent townhall meetings in Hong Kong and Guangzhou, communication sessions with leaders and focus groups, to ensure all ex-WTT Talents feel welcomed as part of one unified HKBN.

One key result of integration is that we've consolidated Talent benefits. Our 'newly joined HKBNers' in Hong Kong now enjoy all the same leave benefits as all Hong Kong based HKBN Talents, including shortened work hours of 9am-5pm, 16 weeks full-paid Maternity Leave, 14 days full-paid Paternity Leave, Grandparent Leave, and monthly half-day off Friday. Leave benefits that were unique to WTT, like Birthday Leave, were also incorporated for all HKBN Talents to enjoy.

Talents

The following table highlights our comprehensive benefits and entitlements which exceed our legal obligation:

Shortened working hours*
Without cutting pay, we shortened working hours from 8 to 7 hours daily, for a total of 35 hours per week, beginning July 2015

Flexible working hours
Talents enjoy the choice to begin work between 8:30 a.m. to 10 a.m.

A 17-day public holiday entitlement for all Talents*
All HKBN Talents, regardless of job, rank or seniority, enjoy 17 days of public holidays annually

Half-day leave during important festive occasions
On the eve of festive holidays, Talents enjoy a half-day leave to spend more time and celebrate with family and friends

Monthly Half-day off Friday*
Once a month, everyone is encouraged to leave the office half day earlier

Family Care Leave
One day of paid leave so that Talents can spend quality time together with family

Exam Leave*
Talents can apply for up to five days of paid Exam Leave annually, two of which can be used to help their children study

Volunteer Leave*
Two days of paid leave for Talents who volunteer for Corporate Social Investment

Marriage Leave*
Five days of paid Marriage Leave

Upgraded Maternity Leave*
16 weeks of full-pay Maternity Leave

Upgraded Paternity Leave*
14 days of full-pay Paternity Leave

Anniversary Leave
One day of paid leave during the month of a Talents' joining to celebrate his/her contributions for a completed year of service

2-for-1 Bonus Leave
Talents can flexibly choose to exchange two days of leave for one day of pay, for up to 10 days of leave annually

Sabbatical Leave
Talents can apply for up to one year of no-pay Sabbatical Leave as an opportunity to pursue a personal goal or dream

Birthday Leave
Talents enjoy one day of paid leave during his/her birth month to celebrate with family and friends

Dating Leave#
One day of paid leave for shift-duty Talents

* *Applicable to Hong Kong operations only*
\# *Applicable to Mainland China operations only*

Talents

"When I first joined HKBN as part of the WTT Merger, there was a bit of anxiety about the uncertainty. But to my pleasant surprise, I became very impressed by the level of respect and care given to every Talent – LIFE-work priority isn't a hollow promise, but rather a way of life! As the mother of a 10-year old boy, I've already used Exam Leave to study with my child and get through the stress of school examinations."

Elsie Lam
Senior Web Designer

LIFE-work Priority: Work Flexibility

Championing LIFE-work priority means we respect our Talents by practising work flexibility whenever the need arises. Throughout FY19 we've continued to be flexible and accommodating in response to events and unexpected situations such as typhoon and large-scale traffic disruptions. We allowed Talents to work from home or at our mobile office locations, or leave office earlier if personal safety was a concern.

Festive Activities with Family

During FY19, thanks to our Talent activity sponsorship scheme, "Let's Go FUNd", over 700 gifts were given to encourage HKBN fathers to enjoy quality time with their fathers/mothers and sons/daughters.

With a similar aim, we organised "Thanks to Family" themed events for our Guangzhou Talents to strengthen relationships during Mother's Day and Father's Day.

Mother's Day Cooking Family Competition:
Talents and their family members made delicious food at home and brought their creations to the office for sharing. Serving as judges, our fellow Talents selected the best dishes and awarded prizes to the winners.

Father's Day Green Family Event:
Forming teams with their kids, our Talents embarked on a mission to clean up a local park.

▲ To celebrate Mother's Day, we organised a cooking workshop for Talents to make traditional lucky buns.

Talents

Having a good mood and adequate rest is important to health. I'm happy that HKBN supports LIFE-work priority – it motivates me to enhance efficiency to complete my work within working hours, so that I can spend great time with my friends and family.

Moon Chung
Co-Owner and Assistant Manager – Talent & Organization Development (based in Guangzhou)

Bring Family to HKBN

To help strengthen the bond between Talents and their families, this July we turned our "Monthly Half-day off Friday" into a special family day. We invited family members to our offices in Hong Kong to get a first-hand appreciation of what we do, as well as take part in various fun activities.

Fairly Rewarding Our Talents

By using a pay-for-performance approach, our Talents are compensated in a fair and objective manner. By rewarding high performers with more bonus and higher salary increments, we recognise and encourage HKBN Talents to deliver better, high quality work. Conversely, as a rule, we terminate the bottom 5% non-performers of our total salary base every year if they fail to show improvement after undergoing a performance enhancement programme.

Individual performance is assessed based on two main factors: WHAT has been achieved (KPIs) and HOW it was achieved (Core Value or Leadership Attributes). "Core Value" and "Leadership Attributes" define the expected knowledge, skills and behaviours which serve to catalyse outstanding performance, and are used as the benchmarks to measure how each Talent has effectively performed in his/her position.

Our performance reviews comprise self-assessment, supervisory evaluation, review meetings and company-wide performance calibration at the department or senior management level. The rated results serve as a reference and criterion from which annual salary reviews, discretionary bonus allocations and promotion nominations are based upon.

As always, we reward high performers with better year-end bonuses, salary increments and potential job promotion opportunities. At the same time, annual salary increment and/or bonus will NOT be given to the 5% of our bottommost performers, while a lower-than-average salary increment and bonus will be granted to those rated as under-performers. To effectively boost excellence, we also invite poor performers to undergo a Performance Improvement Plan which ranges in length from three to six months. When no performance improvement is exhibited, Talents are then asked to leave the company.

▼ In September 2018, 250 of our best performing Talents from Hong Kong and Guangzhou were rewarded with a trip to Tokyo, Japan.

> Last year, I was rated as a bottom 5% performer and was asked to improve within a three month window. In those three months, I underwent the Performance Improvement Plan and worked hard to make big changes. As a result, I transformed into a top 10% performing Talent this year and even earned myself a job promotion!

Alex Ng
Account Manager – Commercial Sales, Enterprise Solutions

On top of the year-end performance reviews, we also have a variety of monetary reward mechanisms designed to motivate delivery of our company goals, key business strategies and KPIs. These can range from short-term rewards such as monthly commissions and an array of incentives to long-term rewards like annual KPI bonuses, pain/GAIN investment schemes (refer to page 10 and page 53 for details) and our Co-Ownership Plan.

Mainland China Talent Development

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.

▲ As a sign of our local leadership development, we now have six locally nurtured Talents comprising our Guangzhou management leaders.

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 benefit from greatly motivated individuals, increased group morale and a management team that is sympathetic to local perspectives. As a result, we've enhanced opportunities for high potential Talents via a variety of Talent development programmes. Accordingly, this has transformed the makeup of our Guangzhou leadership team, which now comprises six local leaders. In January 2019, a Guangzhou Talent was promoted to be our first locally nurtured Associate Director, whilst in March 2019, we also promoted 26 Guangzhou Talents to supervisory-level positions.

> Becoming a Co-Owner has made me reflect on what I can do for HKBN, instead of asking what HKBN can do for me. As a cybersecurity professional who has put skin in the game, my stake in HKBN motivates me to think big and embrace every challenge with passion!

Kaho Fung
Co-Owner and Assistant Manager – Information Security

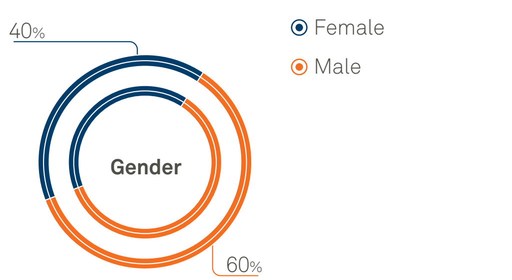
Co-Ownership Opportunity

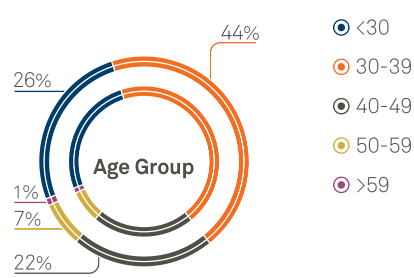
To attract, retain and motivate skilled and experienced Talents, we adopted Co-Ownership Plan II on 21 February 2015. Co-Ownership is a powerful expression of the commitment and belief our Talents have in the Group. Unlike the more traditional approach of giving stock options to a very limited group of senior executives, our Co-Ownership is open to all supervisors-and-above level Talents, spanning the Group's operations across Hong Kong and mainland China. Under Co-Ownership Plan II, we now have over 330 Co-Owners, representing a majority of our supervisors-and above level Talents. Through this dual role as both investor and Talent, our Co-Owners perform with an unmatched level of responsibility and passion.

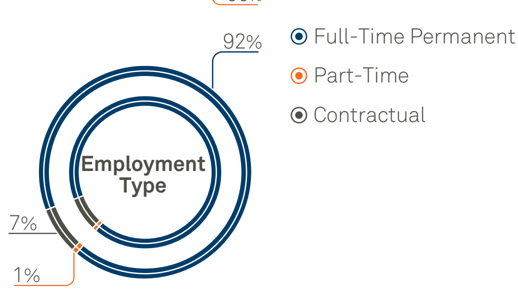
Under the plan, individual Talents invested their personal savings in the amount of between two and twelve months of salary to buy the company's shares at full market price. The shares are then matched with free shares at a certain ratio vested over three years.

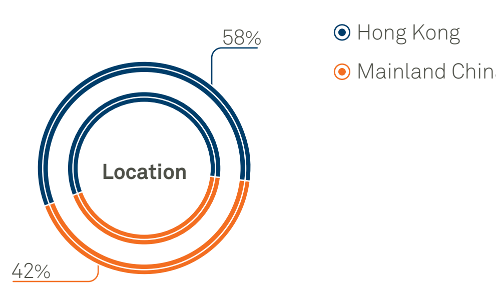
To extend the performance-inducing impact that Co-Ownership brings for both Talents and HKBN's long-term growth, we proposed, and subsequently received approval from shareholders for Co-Ownership Plan III Plus ("CO3+") on 19 August 2019. As at 31 August 2019, about 1,000 Talents are eligible to participate in CO3+, representing approximately 22% of our Group's total number of Talents. For details of CO3+, please refer to our announcement dated 21 June 2019 and the circular dated 26 July 2019.

Facts about our Talents









Our Open Culture for Talents

At HKBN, a vehement embrace of open communication and total engagement means our Talents are always well-informed about key strategy directions impacting our business.

Rather than be passive onlookers in our evolution and growth, HKBN Talents are empowered as well as expected to think, perform and collaborate like a united team of aspiring entrepreneurs.

▲ At our Enterprise Solutions FY20 Kick-off, over

▼ Ready to rock, Talents showed their enthusiasm to deliver at our Residential Services FY20 Kick-off event.

◀ Shortly after our merger with WTT was completed, we organised a town hall meeting to welcome everyone on board our integrated team.

▶ At our annual Vappy Parties in Hong Kong and Guangzhou, fun and games are always on the ticket.

1,000 ES Talents can't wait to take our business to new heights.

▲ No challenge is ever too tough for our Talents, not even the fabled Spartan Race!

▼ Retro cosplay at its groovy best from our December 2018 Vappy Party.

▲▼ Following our merger with WTT, Talents stood proud with paddles as symbols of unity (one team, one dragon boat, one HKBN) at our Talent Meetings in Hong Kong and Guangzhou.

▼ 13 October (1310 being the number of our stock code and the wavelength of fibre optics) was Global HKBN Day, which we celebrated in Hong Kong and Guangzhou

▼ After braving through super typhoon Mangkhut to ensure critical HKBN services could operate normally, we thanked our core teams with a delicious sushi feast.

▼ Letting off stress from work, our Talents were treated to play sessions at eSports Stadium, Asia's largest e-sports arena.

through awesome activities, prizes, rewards and more.

▼ Our Field Service Engineering Talents are always ready to serve enterprise customers.

Talents

Talent Development

Investing in life-long development remains a crucial example of how we treat Talents as priority number one. Our commitment in this area is to ensure that our Talents have all the development opportunities and tools to stay ahead of the game in today's ever-changing business and technology environments. We strongly believe in proactive learning. As such, our goal is to engage Talents and empower them to build on their strengths, realise their dreams and live a purposeful life.

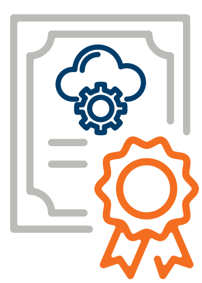
The following table highlights the amount of training we provided for Talents throughout FY19:

Total Training Hours		
Operations-related training	**Leadership & skills-related training**	**Compliance-related training**
84,487 (81,100 in FY18)	11,294 (9,989 in FY18)	7,312 (3,095 in FY18)

Becoming Hong Kong's Most Cloud Proficient ICT Company

We are taking a bold step to establish ourselves as Hong Kong's most cloud-proficient ICT solutions provider with the most professionally-certified cloud experts. As a sign of this determination, 1,300 HKBN Talents have now received their cloud certifications. This company-wide learning initiative augments our Talents with a competitive edge to advise and help businesses better understand the full potential of cloud technology.

To date, about 120 Talents have received cloud certifications from Amazon Web Services ("AWS") and/or Microsoft Azure. These expertise upgrades have equipped our Talents with knowledge to guide and support our customers through their digital and cloud transformations.



1,300

HKBN Talents received cloud certifications

"I began my career as a leader of eight and now I lead a team of 120 Technical Engineers. One of my proudest achievements at HKBN is that I personally groomed 80% of my direct-report subordinates from the junior level into supervisory-level Talents. They have now developed into team leaders, each managing 30-40 Talents!"

Van Leung
Co-Owner and Manager –
Technical Service, Enterprise Solutions

Talents

Huawei Shenzhen Visit

In April 2019, over 80 Talents joined our company visit to Huawei's global headquarters in Shenzhen. Our group was hosted by representatives from Huawei, who shared behind-the-scenes insights into business, technology and Talent strategies that are vital to its success.

▲ At Huawei headquarters, our Talents got a sneak peek at some of the latest breakthroughs in telecommunications and robotics technology.

▲ Company visits help give our Talents inspiring new benchmarking perspectives to think beyond HKBN.

Leadership Development

On top of a comprehensive array of training across product, leadership and compliance, our long-term development goal emphasises three key leadership competencies: leading disruption, empowerment and purposeful leadership. Through these concepts, we unleash the full potential of our Talents to achieve purposeful profits.

From junior level to the most senior level Talents, these three key leadership competencies ensure that all HKBN Talents are not only well equipped as leaders who think and act innovatively, but are also eager to pass on their knowledge for subordinates and peers, as well as find ways to give back for society.

▲ Over the years, our *Be a Pioneer* programme has helped launch the careers of numerous Talents into management-level positions.

Next Station: University II

For ambitious Talents who missed out on a university education, our flagship development programme, Next Station: University ("NSU") has touched the lives of over 60 Talents with a life-changing opportunity to earn an internationally recognised bachelor's degree. With the company's full support, Talents who graduate make a significant step forward in transforming their career prospects. This year, after a 3-year journey of dedication, 34 Talents have completed their studies and earned an internationally recognised bachelor's degree in business from Wrexham Glyndŵr University.

Be a Pioneer

"Be a Pioneer Programme" is our flagship development programme which aims to nurture Talents with management potential through entrepreneurship and innovation development. A series of development courses are offered to help unleash each participant's potential in design thinking, leadership profiling, innovation leadership and finance.

HKBN Enterprise Solutions Cloud Services Future CXO programme

To identify and develop the next generation of leaders, we initiated the HKBN Enterprise Solutions Cloud Services Future CXO programme in June 2019. This 2-year fast track programme will help us develop high potential Talents into capable team leaders. Extensive on-the-job training, coaching and various project assignments will be given as part of this challenge. Rotations to different departments will give young Talents the chance to assess their ICT strengths and interests and carve out a preferred career path. As at August 2019, four future CXO candidates have been chosen for the programme.

▲ This year, our 16 Summer Innovators (selected from over 1,500 applicants) got to expand their horizons through inspiring opportunities from inside HKBN and beyond HKBN.

Workplace Health & Safety

Success of our business hinges greatly on how we ensure that Talents can work in a healthy and safe environment. To achieve this, we espoused policies for an occupational health and safety management system that are regularly reviewed and tested across a diverse variety of conditions. In general, our objective is to establish a vigilant view over safety. This ensures that identification of hazards, assessment of risks, and the implementation of necessary control measures are undertaken on a regular and timely basis. At all times, we committed the appropriate resources to implement and maintain these standards, and worked diligently to comply with all health and safety regulations such as Occupational Safety and Health Regulation, Cap509A of the laws of Hong Kong, Occupational Safety and Health (Display Screen Equipment) Regulation, Cap509B of the laws of Hong Kong and Construction Sites (Safety) Regulation, Cap59I of the laws of Hong Kong.

Safety Committee

Since 2017, an in-house Safety Committee, comprising Talents from several technical and Talent engagement departments, functions to formulate our Occupational Safety & Health Management Strategy. Through regular review meetings, we define the monitoring and review mechanisms from which our health and safety objectives are met. In March 2019, we responded to safety concerns by tailoring a number of new training courses like Dog Safety Training and Driver Safety Training for our individual frontline teams.

Safety as a Priority

In 2019, we continued to work with a certified safety consultant to manage occupational health and safety via exercises that include workplace safety inspection across office, data centre, warehouse, canteen and retail shops, as well as risk assessments, surprise inspections of network installation sites, and in-house safety training provided for frontline teams. To reinforce health and safety management, we undertook regular and occasional safety inspections at various of workplace and network installation sites. Upon receiving the inspection reports, we reviewed existing work procedures and facilities to make improvements where necessary. Furthermore, Talents and relevant contractors are required to undergo mandatory safety certification training.

In 2019, we offered a wide range of training to enhance Talent awareness about building a safe and healthy workplace environment, as well as how to prevent accidents from happening. We provided Talents, new joiners and contractors with over 40 sessions and 3,316 hours of health and safety-related training. The number of work-related injuries that occurred in FY19 decreased by 5% compared to FY18.

To improve safety in the workplace, all office premises are now equipped with Automated External Defibrillators (AED) for resuscitation. Coinciding with this, we provided AED training to over 158 Talents. We also offered certification in first aid training and elementary first aid training. At present, 52 Talents are recognised as qualified first aiders, whilst over 169 Talents attended the elementary first aid training.

During FY19, we provided health and safety training in the following areas:

- Fire safety
- Certification in first aid
- Elementary first aid
- Automated external defibrillation
- Height work safety
- Dog safety
- Driver safety
- Accident investigation
- Safety management

Health and Wellness

To uphold LIFE-work priority, we initiated wellness programmes like a workplace massage day to increase motivation and productivity. In addition, to encourage healthier lifestyles, we offered various fitness courses on Pilates, fit ball, Tabata and circuit training, as well as a series of health talks about eczema & skin allergies and more.

Mindful that good air and water quality is important, we participated in the Hong Kong Government's Indoor Air Quality (IAQ) Certification Scheme and the Quality Water Recognition Assessment. An IAQ Assessment was carried out in May and June 2019 at all three of our office premises. All premises were rated as "good class" by the IAQ Certificates. In addition, we upgraded our drinking water system with a neutralising filter to improve quality. A water assessment was conducted in June and August 2019 at all three of our office premises. Subsequently, our drinking water was rated as good in quality.

During FY19, our performance in health and safety in Hong Kong is encapsulated by the following:

Number of Fatalities: Nil

Injury rate: 1.5[1]

Lost days rate: 103.1[2]

1. *Injury rate calculation: total number of work injury (28) x total working hours for 100 full-time Talents (200,000)/total working hours for all Talents (3,650,790)*
2. *Lost day rate calculation: total number of lost days (1,882) x total working hours for 100 full-time Talents (200,000)/total working hours for all Talents (3,650,790)*

Talents

During the reporting period, there were four court cases involving HKBN 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 premises 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 violation of safety requirements. Shortly after the initial inspection, we made improvements to avoid any similar incidents from reoccurring.

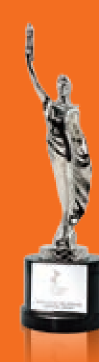
▲ Every year, we provide Talents with the skill to save lives through first-aid training.

▲ Guided by a safety expert, we organised a workshop on safety for various Talents.

Awards and Recognition

LinkedIn
Most Innovative Employer Brand – Silver Awards

CTgoodjobs
Best HR Awards – Best Compensations & Benefits Award



HR Asia
Best Companies To Work For In Asia 2019

Winning Partnerships

Our business is better because we maintain honest and fair relationships with partners and suppliers. Rather than profit off one another, the aim is to prosper together – win-win.

Karen Chan
Senior Manager – Business Development & Partnership

Above all, the primary objective of our sourcing activities is to ensure continuity of our product and service supply, which we accomplish by maintaining strong and effective relationships between our business units and suppliers in a fair, open, transparent and mutually beneficial win-win manner. Building a long-term relationship with our suppliers requires two-way dialogue, and this cannot be done without trust, communication and shared values which include business ethics, integrity and commitment to deliver world-class products and services.

Assessing Supplier Performance

Supplier performance plays a crucial role in our operations. By working closely with suppliers, we can operate smoothly, as well as become equipped with the resilience capabilities to provide outstanding service for customers. As such, we value our suppliers like an extension of our operations and consider them as business partners. A supplier management framework, first introduced in 2015, provides us with a systematic and consistent approach to review, track and correct actions – ensuring risks are mitigated in a proactive manner.

For a more robust assessment of supplier performance, we've incorporated criteria to determine supplier criticality on a project by project basis. Key factors considered include assessments made on impact to customers, operations, legal and regulatory, sustainability and reputation. Such assessments help us identify potential risks much earlier and mitigate hazards proactively. Importantly, these assessments provide a solid indication of how we monitor and measure a supplier's performance, as well as manage relationships.

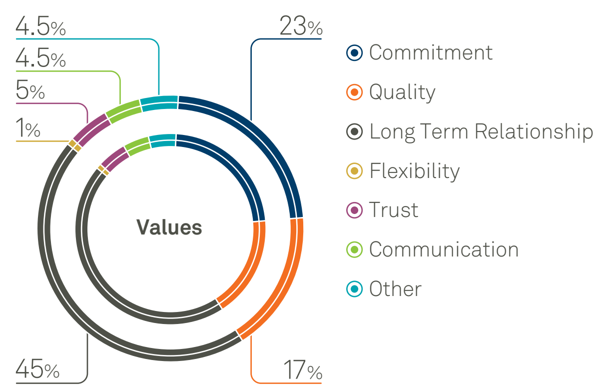
Through entering into supplier contracts and service level agreements (SLA), we clearly specify mutual commitments, rights and obligations, role and responsibilities of our suppliers and business partners. In addition, key performance indicators and other time-bound deliverables are also clearly set.

Effective Communications

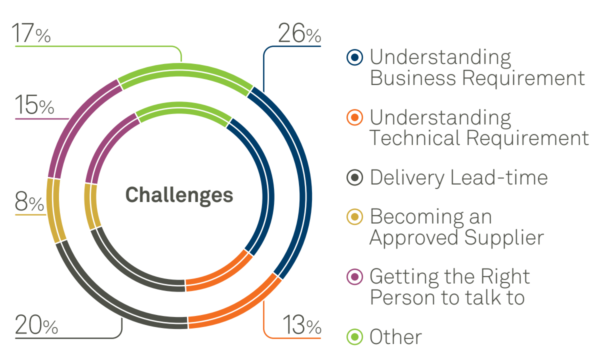
Engaging suppliers for their feedback gives us a better understanding about their views and needs, as well as areas that can be improved. Towards the end of 2018, we invited suppliers to participate in our supplier satisfaction survey. 45% of suppliers who responded said they valued the long-term relationship, while 23% saw their commitment to deliver excellent services to HKBN as a critical factor. Through this highly detailed survey (the full results are made available to our various functional teams), we've gained better insights into a broad array of challenges faced by suppliers and will use the results to improve the way we engage and collaborate.

2018 Supplier Satisfaction Survey

What suppliers value most when doing business with us:



Top Challenges for Suppliers:



Suppliers

▲ Led by Elinor Shiu Co-Owner and CMO – Residential Services, (2nd from right), our Marketing team leveraged a collaboration with Disney to create four ultra-cool MARVEL and Toy Story-themed Home Gateway devices.

Innovation & Flexibility

Rather crucially, we champion innovative and creative ideas whenever they can best serve the interest of our company and those of our suppliers. In a process that favours flexibility, our aim is not to necessarily seek better prices, but rather a better deal based on strategic requisition costs. As an example, this flexibility enables us to accept resource exchanges – whereby we exchange our ICT services for goods and services that we may need at a given time – as a means of payment. This is done with the cooperation of our sales and functional teams, who work closely to help specify and evaluate our suppliers' needs as well as ours. Past examples of such resource exchanges included the procurement of conferencing facilities, food & beverage services, serviced offices and co-working space, indoor activity parks, etc.

Aligning Suppliers with HKBN's Values

As a company committed to sustainability, we actively work with suppliers who favour and operate on the principles of sustainable development. Over the past several years, we have integrated sustainable procurement practices into our supplier chain activities. Examples of this include the requirement for environmental, health and safety provisions in our supplier contracts and purchase orders. Similarly, we have added sustainability measurements as a part of our sourcing assessment process.

For the purpose of diversity, HKBN endeavours to provide sourcing opportunities, when possible, to a broader range of businesses like social enterprise suppliers. Through such practices, we aim to create a positive impact for environment, social, ethical and economic reasons.

A Supplier Code of Conduct ("SCoC") concerning corporate governance, environment protection, health and safety standards and fair labour conditions was implemented in 2018. Through this, suppliers are expected to either comply with our SCoC or have their own code of conduct which espouses a similar approach of expectations for their respective suppliers and subcontractors. To ensure that suppliers understand our SCoC, we require each supplier to endorse the SCoC. Relevant provisions in relation to the SCoC are also included in our standard supplier agreement.

▶ (From left) Microsoft Hong Kong and Macau General Manager Cally Chan, Microsoft Greater China Region Chairman and CEO Alain Crozier, HKBN Co-Owner and Executive Vice-chairman William Yeung, and HKBN Co-Owner and CEO – Enterprise Solutions Billy Yeung celebrate our collaboration to pioneer voice and video-conferencing enabled M365 and O365 solutions in Hong Kong.

Hei Liu
Co-Owner and Assistant Manager – Project Management, also an active Talent volunteer since 2015

Sandy Wong
Manager – Corporate Social Investment

Tracy Chan
Co-Owner and Officer – Corporate Social Investment

Community Investment

We have a role in making tomorrow better than today. Our Talents provide time and expertise to invest in sustainable opportunities for people from local communities.

In everything we do, and in every decision we take, "Make our Hong Kong a Better Place to Live" is omnipresent at all times. As such, HKBN has a big role to play in creating a better Hong Kong for everyone. The most direct way we achieve this is through purposeful initiatives aimed at our local communities.

Going beyond pure philanthropy, we strive to ensure that people, especially youths and the underprivileged, can benefit by way of sustainability and empowerment. Rather than corporate social responsibility, we passionately embrace Corporate Social Investment ("CSI") to focus our corporate resources and Talent expertise as drivers to boost betterment for individuals and communities in a sustainable way.

Throughout this CSI journey, we're actively giving back through technology empowerment, Talent volunteerism and cooperative partnerships with social enterprises. Along the way, we have worked closely with HKBN Talent CSI Fund, our independently operated charity organisation funded by our Co-Owners.

Technology for Good

Every day, HKBN connects and impacts the lives of millions in Hong Kong. Mindful of this, one of our CSI strategy's core focus is to leverage technological expertise to help mitigate social issues and address social needs within the community. By teaming up with like-minded social partners, as well as mobilising our own Talents and services, we are working towards a better and safer future.

Cyber Wellness

The digital world is shaping and transforming the way we live. However, digital media and new technologies, when used improperly, may expose us, especially younger people, to risks like cyber security, data privacy, cyber bullying and excessive screen time on digital devices. During the reporting period, we worked with local primary schools to offer systematic learning modules which empower children to safely and responsibly navigate the cyber world.

Net's Be Wise

In 2018, HKBN and HKBN Talent CSI Fund partnered with Junior Achievement Hong Kong to launch the 18-month Net's Be Wise programme. This initiative enhances the "Digital Intelligence" ("DQ") of primary school students aged 8-12. As at the end of this reporting period, a total of 24 schools and 2,617 students participated to acquire eight digital citizenship competencies through DQ World's online learning platform and offline school workshops.

數碼NET人
NET'S BE WISE

Enhanced Digital Intelligence of 2,617 students

Scan the QR code for a video about Net's Be Wise

Encouragingly, students who completed the DQ World online learning platform experienced material improvements as their DQ scores rose by 11-24%, whilst an average score of 100 was achieved. A score of 100, according to DQ Institute, is classified as "Satisfactory", meaning the participants are above average in the safe and responsible use of digital devices and media.

An average DQ score of **100** was achieved

Throughout the programme, our students learned how to distinguish the authenticity of online information. They will cross-check different media to confirm the source of information. They have also learnt to show empathy, questioning themselves when posting negative comments just for the sake of revenge. I am very glad to see they have become more aware about the online world's cyber risks.

Mr. So Lap Ming
HKKKWA Sun Fong Chung Primary School teacher

I find browsing online fun. The information is interesting. That's why I will keep surfing online and have trouble controlling my screen time. Through the programme, I learnt I can't spend so much time online, otherwise it can hurt my eyes! I am now determined to reduce my screen time!

Ka Yu
Sacred Heart Canossian School student

Cyber Wellness for Parents

Mindful that involvement from parents plays a crucial role in a child's cyber wellness development, various initiatives were introduced by HKBN and HKBN Talent CSI Fund to better facilitate parental engagement. Through these, our aim is to encourage parents to play a bigger role in helping children navigate digital challenges via real-world encounters. During the reporting period, the following were organised:

Net's Be Wise Charity Family Harbour Cruise

This event invited 80 parent-child pairings to board the "World Star" cruise and enjoy a 2-hour offline cyber wellness experience and learning workshop in November 2018. Scan the QR code for a video of our cruise.

Net's Be Wise Detective Game x Dyeing Experience

Running from April to July 2019 under the guidance of our facilitators, this event allowed over 50 parent-child pairings to role-play as "detectives" to investigate the disappearance of a missing dye master. Participants learned how to manage their digital footprint and espouse a more critical view towards cyber information.

Cyber Wellness Seminar for Parents

Through various sessions held at schools, Talents from our Product Development and Management teams shared tips on cyber risks and security to equip parents with requisite awareness to face evolving online challenges.

Narrowing Digital Divides

As the world increasingly goes digital, there remain groups of people at risk of being left behind. Enhancing tech accessibility, affordability and people's ability to use technology has become one of our top CSI priorities. For the underprivileged, we seek to make the digital world more accessible through knowledge sharing from our Talents, as well as via fair and reasonable pricing of our services.

Affordable Broadband for the Underprivileged

In 2019, we teamed up with Web Organic, a social enterprise wholly owned by the Hong Kong Council of Social Service to initiate a "Broadband Service Concession Scheme for Elderly from Low-income Families", providing broadband service at a fixed and affordable monthly price for three years. Likewise, we are exploring opportunities to extend our broadband service concessions to more community groups in need.

PC Doctor 2.0

Led by our Certificate Professional Engineers (CPE) and Facilities Services Engineers (FSE) Talents, our PC Doctors programme provides service to diagnose and fix computers, as well as offer IT classes free of charge for Hong Kong's underprivileged families.

In 2019, we continued to expand the scope of our PC Doctors to provide cyber wellness knowledge to local families with children aged 3-16. Under this new arrangement, our CPE and FSE Talents have volunteered to make scheduled home visits, conduct basic Internet security and personal digital device privacy checks.

PC Doctors have delivered
1,236.5 hours
of service since May 2015

for
888
families and individuals

Talent Volunteering

Talents are encouraged to give back by participating in volunteering activities. Every year, Talents who volunteer their time for socially-good causes are rewarded with up to two days of paid Volunteer Leave. As such, volunteerism at HKBN has continued to grow year after year. In FY19, our total number of volunteers in Hong Kong increased to 412, a 68.2% jump compared to the previous year. All combined, we contributed 2,676 volunteer hours for our communities (versus 2,239 hours in FY18). And as a sign that our culture of giving back is growing, we recorded a record-high rise in new volunteers. Out of these 412 volunteers, 65% (i.e. 268) joined for the first time.

Our total number of volunteers

412

Volunteer hours contributed

2,676

> It is more blessed to give than receive. Inspired by HKBN's team of volunteers, I've discovered a passion for volunteering. The satisfaction from putting smiles on the faces of people in need is incredible. It's wonderful to be able to take a timeout from work and still make a difference by helping the community!

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

Team Building X Volunteering

From past experiences, we know that Talents can quickly build excellent chemistry through mission-based volunteer activities. This motivated us to introduce a "Team up for the Community" volunteering series, supercharging the way we serve the community whilst strengthening team camaraderie – win-win.

During FY19, we organised 17 tailor-made volunteer activities for 15 different teams, tasking them on missions which included role-playing with primary school students to practice presentation skills, helping children experience a day as "office assistant", and installing smart home devices for elderly to improve their quality of life.




Team Up
for the Community

A great example of how we've fused mission-based volunteer activities with team building, one of our participating teams of "Team Up for the Community", Information Technology (Enterprise Solutions), mobilised over 50 teammates to spend a day at Mui Wo, a remote neighborhood on the outlying island of Lantau. They utilised their IT expertise to assist an under-resourced kindergarten, which include playing online programming games with students, renovating the school facilities and conducting computer check-ups for Mui Wo's residents. This meaningful day not only brought benefits to the kindergarten, but also added extra value of building bonds among our IT teammates.

Kim Ping Yeung, our Co-Owner and Associate Director – Information Technology said, "It is rare that our IT Talents from Kwai Chung, Kowloon Bay and Guangzhou office have the chance to get together. Spending a day in Mui Wo is a wonderful opportunity for us to bond better through making good use of our IT expertise to serve persons in need."

Other than utilising expertise, our Talents also extended their caring to address community needs. Our HKBN Enterprise Solutions Major Account Relations team and Information Technology Corporate System Support team spent four afternoons visiting seniors who live alone in Kwu Tung, a remote rural area. They noticed that, due to plans for the area's redevelopment, the seniors were extremely concerned about relocating to public housing. As a result, our teams organised a Sheung Shui public housing visit tour to familiarise the Kwu Tung seniors to the nearby surroundings and facilities.

"HKBN volunteers helped us tour the area where I will soon be moving to. I am now better prepared and feel less anxious," said Ms. Ko, a senior from Kwu Tung.

Scan the QR code for a video about Team Up for the Community

Community

Knowledge Transfer

As the saying goes: Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime. By transferring our knowledge and empowering beneficiaries, we aim to engender sustainable good for society. Examples of this include:

In collaboration with the Hong Kong General Chamber of Social Enterprises, Anthony Fung, our Co-Owner and Senior Manager – Finance, delivered a series of finance management workshops throughout FY19 to help enhance operational capabilities for social enterprises. Similarly, since 2015, CY Chan, our Co-Owner and Head of Talent Engagement & Corporate Social Investment, has applied his Talent management and training expertise to help a non-profit organisation develop a performance evaluation mechanism for volunteer recruitment purposes.

▲ Anthony Fung, our Co-Owner and Senior Manager – Finance, shared his knowledge in finance to help individuals operating social enterprises.

Over 110 Talents participated

HKBN Volunteer Day 2018

Continuing our momentum to give back on a grand scale, we again organised our Volunteer Day in October 2018. This year, over 110 Talents transformed into dream-makers, helping nine vulnerable groups, ranging from the vision and mobility-impaired to underprivileged ethnic minority girls and students at a primary school, to accomplish some 'impossible' milestones.

▲ Hand in hand with students, our volunteers created a beautiful mural inside ELCHK Hung Hom Lutheran Primary School.

▲ Making dreams come true, our volunteers accompanied a group of seniors on a cycling trip to Shenzhen.

Community

▲ We custom-built a football gantry so that the students of Man Kiu Primary School could enjoy activities on campus.

▲ Nothing beats the joy of helping others from our local communities.

$13.06 million in ethical consumption

Social enterprises are increasingly playing a bigger role in making society better. For this reason, we've committed efforts to promote, support or collaborate with social enterprises. Our goal is to empower and enable them to thrive and become self-sustainable, and, when possible, help create self-reliant employment opportunities for the socially disadvantaged.

As one of our signature social enterprise collaborations, HKBN's partnership with iEnterprise, which began in 2014, offers gainful employment opportunities to a team of physically disabled individuals, who handle our 1083 telephone hotline enquiry service. Since 2018, the scope of this collaboration has been extended to include our online chat service.

We also made concerted efforts to engage our customers with both ethical consumption and social enterprises. This year, we purchased gift certificates from "Live Smart", a social enterprise associated with the Hong Kong Society of Rehabilitation which sells rehabilitation supplies and groceries. Our customers can choose to receive these gift certificates as bonus premiums for joining or renewing our telecom services.

During the reporting period, we participated in the "DE Empower" programme organised by Dialogue Experience, a social enterprise which helps People of Differences create social impact. Through this, we offered Talents with disabilities a 6-month job immersion experience, allowing them the chance to grow from employment inside a conventional work environment.

Since 2013, the total accumulated amount we've spent on ethical consumption was $13.06 million, a considerable increase from $10.74 million, our accumulated ethical consumption in 2018.

Community

CSI in Mainland China

This fiscal year, our teams in Guangzhou echoed our difference-making via volunteer initiatives aimed at different community beneficiaries. In 2019, 122 Guangzhou Talents volunteered on CSI initiatives.

122 Guangzhou Talents volunteered on CSI initiatives

Charity Begins with Books

In December 2018, our Guangzhou Talents pooled their resources to purchase 500 new books. The books were donated to a local primary school in Guangzhou for the long-term benefit of thousands of children.

▲ Our Talents in Guangzhou gave back by donating 500 books for school children.

Donated **500** new books

▲ Books can unlock the hopes, dreams and imagination of our next generation.

Meeting Guide Dogs

In June 2019, our volunteers collaborated with South China Guide Dogs Demonstration Base for an opportunity to better understand the daily lives of the visually-impaired, as well as meet the guide dogs who assist them. In addition, we worked with volunteers from Guangdong University of Foreign Studies, assisting their IT students to develop a mobile app and website module for attracting more volunteers for South China Guide Dogs Demonstration Base.

▲ Via our CSI initiative in mainland China, our Talents learned a lot more about the struggles of visually-impaired individuals.

Community

▲ Serving as gracious hosts, our Guangzhou Talents helped children of migrant workers feel more at ease about life in an unfamiliar city.

World Vision Young Seedling Project

In July 2019, we participated in World Vision's "Young Seedling Project". This initiative focuses on children of migrant workers with the aim of helping them through life skills enhancement, community integration, parent-child relationships, mental health and more. Putting their fluency of Cantonese to use, our Talent volunteers served as guides in a series of learning activities designed to build a sense of belonging via Cantonese culture.

Awards

Awards & Recognition	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
Constituent Member of Hang Seng Corporate Sustainability Benchmark Index	Hang Seng Indexes Company Limited
HKQAA CSR Plus Mark	Hong Kong Quality Assurance Agency
Social Capital Builder Logo Awards 2018	The Community Investment and Inclusion Fund of the Labour and Welfare Bureau
The 9th Hong Kong Outstanding Corporate Citizenship Award – Bronze Award (Enterprise)	Hong Kong Productivity Council
Tithe Ethical Consumption Movement 2018 (TECM 2018) – SE Supporter Plus Award	The Fullness Social Enterprises Society

Benson Ma
Assistant Officer – Administration

Smarter Approach to Green

To tackle pressing environmental challenges, we're looking beyond traditional methods. Our embrace of technology and smart solutions is transforming the way we consume and conserve.

HKBN is committed to protecting and reducing our impact on the environment. As a technology business, our main environmental footprint source is our use of electricity to power our general operations and networks, and the waste that is generated out of these activities. Cognisant of this, we're focused on exploring newer, better and more innovative ways to improve energy efficiency and minimise waste generation.

Mindful that concerns about the environment are a key issue for our various stakeholders (garnered via feedback from stakeholder engagement and materiality assessment exercises), our commitment to mitigate our eco-impact ensures that responsible environmental practices and continual improvements are always embedded in our daily operations.

Our CO_2 emissions reduction goal is set with assistance from our energy consultant with the adoption of a data-based KPI target setting methodology. Performance reviews with functional units were carried out regularly to monitor progress and identify discrepancies, if any, between the actual performance data and the expected outcome. Corresponding corrective measures are implemented as needed.

Pre-assurance of Environmental Performance

We appointed an external consultant to conduct pre-assurance reviews for our environmental-related data in Hong Kong. This exercise provided us with insights in the quality of our data and served as a valuable internal management tool of our environmental data collection process and subsequent disclosure. In the reporting period, we began extending our environmental data collection practice to our mainland China operations. Because integration with WTT also expands our operational scope in the mainland, our environmental footprint and performance will also change as a result. In light of this, we believe the most prudent way forward is to consolidate all environmental data (combined from Hong Kong and mainland China's operations) for reporting in FY20. As such, all of the environmental-related initiatives, data and performance contained in this report does not cover our operations in mainland China. For energy consumption, we appointed an energy consultant to verify our energy utilisation in Hong Kong.

Smart Energy Efficiency

A key pillar of our environmental strategy is based on innovation and collaboration. This approach, which champions new solutions and enhancements to operational workflow, ensures that ingenuity and smart ideas play an increasingly bigger role in how much we improve year-on-year. With this guiding us, we have strived to enhance our energy efficiency via the following eco-initiatives:

Environment Performance Dashboard

To ensure our emissions reduction target is achievable, Talents play a deciding factor. Knowing this, we customised an environment dashboard so that performance across a variety of metric indicators can be dynamically visualised to help Talents track, monitor and analyse progress.

"Something from Nothing"

The Something from Nothing project has continued to make huge improvements in our overall energy footprint. This highly pioneering initiative, which we began in 2016, saw us collaborate with an energy consultant to improve overall energy efficiency. In a smart and unique way, Something from Nothing required no initial capital investment from HKBN, despite numerous energy efficiency upgrades implemented at our offices and data centre operations. Investments for all incurred retrofitting was fully funded by our consultant, who shared a fraction of our energy cost savings as compensation.

Thanks to the higher efficiency of replaced equipment as well as new workflow enhancements, Something from Nothing's performance has, to date, exceeded our energy and cost saving targets.

The following table highlights the considerable energy savings achieved:

Something from Nothing initiative	Accumulated energy savings (As at July 2019)
LED lighting replacement at HKBN office CRAC Unit Fan Retrofit (operating since 2016)	2,054,404 kWh (Roughly 80% reduction annually)
LED lighting replacement at two data centres CRAC Unit Fan Retrofit (operating since 2017)	948,392 kWh (Roughly 22% reduction annually)
Chiller replacement at HKBN office (operating since 2018)	640,124 kWh (Roughly 28% reduction annually)

Like the excellent performance achieved in the past two years, we plan to expand Something from Nothing's scope to other office premises, data centres and network related areas – prompted by our completed acquisition (and integration) of WTT's operations.

Other Energy Saving Initiatives

To provide a better and greener place to work, we also made some relatively small but impactful modifications that included:

- Adding heat resistant window films in office area
- Readjusting office temperature to maintain at between 24°C – 26°C
- Installing lighting motion sensors in most common-use areas

With these adjustments in place, this fiscal year we have achieved 10.18% reduction in indirect energy intensity when compared to the last fiscal year.

IoT Energy Consumption Optimisation and Management

A way that we're effectively improving energy efficiency is through energy upgrades powered by smart tech solutions. Since 2018, we have adopted an IoT approach to control our lighting and air conditioning systems at one of our office floors. This has enabled our Talents to manage lighting and ventilation for individual zones via mobile application – making it easy to switch off illumination or air conditioning at lunch or after normal working hours.

As a direct result, we extended use of this IoT solution to other floors in FY19 and achieved 36% annual energy reduction.

Achieved **36%** annual energy reduction

Environment

Key environmental data for FY19

Greenhouse gas emissions[1]	27,856.3 tCO_2 e
Scope 1 emission [2]	166.48 tCO_2 e
Scope 2 emission [3]	27,490.06 tCO_2 e
Scope 3 emission [4]	199.78 tCO_2 e
Greenhouse gas emissions intensity	5.45 tCO_2 e / $ million revenue
Direct energy consumption [5]	605,949 kWh
Direct energy intensity	118.63 kWh / $ million revenue
Indirect energy consumption [6]	53,337,342 kWh
Indirect energy intensity	10,441.92 kWh / $ million revenue
Water consumption [7]	2,401 m^3
Water intensity	0.47 m^3 / $ million revenue
Hazardous waste generated [8]	105.04 tonnes
Hazardous waste intensity	0.02 tonnes / $ million revenue
Non-hazardous waste generated [9]	103.31 tonnes
Non-hazardous waste intensity	0.02 tonnes / $ million revenue
Waste diverted [10]	62.31 tonnes

\# *The environmental data provided above is based on operations owned and controlled in Hong Kong including offices, shops, data centres, hub sites and switch rooms.*

1 *Carbon emissions generated from the operation owned and controlled in Hong Kong including offices, shops, data centres, hub sites and switch rooms.*
2 *Scope 1 emissions are direct GHG emissions from sources that are owned or controlled by HKBN such as emissions from fuel of company vehicles and genset, the refrigerant of air conditioning and chiller.*
3 *Scope 2 emissions are indirect GHG emission resulting from the generation of electricity purchases by HKBN.*
4 *Scope 3 emissions included indirect GHG emissions from sources not owned or directly controlled by HKBN but related to our activities such as office paper usage and oversea transportation.*
5 *Vehicle, generator and mobile generator fuel consumption are included in the direct energy consumption.*
6 *Electricity purchases are included in the indirect energy consumption.*
7 *Water consumption included waters used in offices, data centres and shop (Yuen Long). Since there is no water supply in hub sites and switch rooms, so this part is not included.*
8 *Hazardous waste generated is included uninterruptible power system and lighting tube only.*
9 *Non-hazardous waste included construction waste and general waste in offices, shops and data centres.*
10 *Waste diverted included paper, plastic, metal, wooden, e-waste and glass. Overall waste diversion rate in FY19 is 60.31%.*

For FY19, our scope 1 emissions rose by 25.15% over FY18 mainly due to an overall expansion of our business operations. Scope 2 emissions dropped 5.39% from our FY18 performance as calculation of the emission factor was adjusted to 0.51kg CO_2e/kWh (versus 0.54kg CO_2e/kWh for FY18) by Hong Kong's two main electricity providers, CLP and Hong Kong Electric. Scope 3 emissions fell 56.97% versus FY18 because of concerted efforts to reduce business travel throughout the year.

Direct energy consumption and indirect energy consumption rose by 26.69% and 0.08% respectively over FY18, primarily due to an expansion of our business and the number of Talents. Water consumption fell 10.18% versus FY18 as a result of ongoing educational efforts to alter the usage habits of our Talents. Hazardous waste generated increased 25.07% over FY18, mainly because of data centre usage (end of product lifecycle/ maintenance). Encouragingly, our non-hazardous waste generated fell 22.28% versus FY18 due to comprehensive efforts to recycle, reduce and reuse across our operations. As a sign of progress in this area, our non-hazardous waste diversion rate rose 5% over FY18's performance.

Consumption and Waste Management

Operational waste, e-waste and packaging are the main sources of waste generated by us. To effectively minimise waste, we continued to focus on a 4R (reduce, reuse, recycle and replace) strategy, and by collaborating with our supplier and partners.

Aiming for "reduction-at-source", we've strived to reduce our resource footprint at the operational level and have identified viable recovery channels to divert waste via other recycling options. A regular review structure helps manage and handle operational waste, making sure recyclable materials are properly collected and processed. During the reporting period, our waste diversion rate was 60.31% which is 5% higher than the previous year.

Environment

Paper Reduction

As a responsible company, we have made every effort to reduce the environmental impact of our paper usage. With an aim to reduce, we developed workflow systems that eliminate the use of paper and physical documentation, fostering an electronic paperless workflow internally for Talents and various online platforms externally for customers. New for 2019, digital signboards were installed in our office premises to replace paper-based internal memos, notices and more. All in all, our paper consumption during the reporting period was 21,590 kg, a 41% reduction compared to the previous year.

Zero Waste Pantry and Green Canteen

Since 2016, we have concentrated on several initiatives to create a "zero waste pantry" in our offices. Talents are encouraged to eliminate the use of disposable cutlery. Besides discouraging the use of plastic drinking straws, we provide reusable cutlery to reduce reliance on disposables.

During the reporting period, we set up leftover food and coffee waste collection boxes. The recovered food waste is then transferred by our vendor to become renewable energy, whilst the ground coffee beans are upcycled into planting pots or other items. In addition, a food composting machine has been introduced in one of our office floors to turn leftover to compost. Through the above measures, we have successfully recovered 3,720 kg of foodstuff waste.

3,720 kg
of foodstuff waste recovered

We are very conscious that personal consumption habits can have a big impact on the environment. To this end, we encouraged Talents to eat smart via the following:

Zero-leftover Lunch

Through this workshop, our Talents made their own DIY edible cutlery and fruit tea using leftover fruit and utilised design thinking processes to brainstorm and identify solutions to minimise leftovers and wastage.

A Week of Blemished Fruit

To convince our Talents that blemished fruits are just as tasty and nutritious, our in-house canteen included ripened fruit as part of its lunch menu.

Veggie Meal

Vegetarian diets can have an excellent impact as meat production incurs higher levels of carbon emissions! In June 2019, our Talents were encouraged to enjoy veggie meals at our in-house canteen or external caterers.

Environment

Electronic and Hazardous Waste Recycling

As a technology business, electronic waste and waste from lead-acid batteries are significant by-products of our operation. In 2018, we recovered 5.79 tonnes of regulated electrical equipment (REE) such as refrigerators, televisions, computers, printers, scanners and monitors for recycling in accordance with the Producer Responsibility Scheme on Waste Electrical and Electronic Equipment (WPRS) of the HKSAR Government. Additionally, a collection box for lithium-ion batteries was installed to facilitate recycling.

In the handling of operational waste, we work with licensed chemical waste collectors. Beginning 2019, we have committed ourselves to work with a battery recycler to collect waste lead-acid battery (WLABs) from our uninterruptible power system for safe disposal and recycling.

Uniform Design & Packaging

To minimise waste associated with our Talent uniforms, we've asked our vendors to go plastic-free in 2019 – no plastic wrap or tags! In total, this change has saved around 3,500 plastic bags annually.

Green with the Community

Whilst going green internally is vital, a broader more powerful change can occur teaming up with our communities.

5.79
tonnes of electrical equipment recovered

Barter Exchange Programme

To encourage a "use less, waste less" practice, we organised barter exchanges in our office and collected over 200 items that included household products, kitchenware, stationery and toys. Some of these items will be donated to our local communities.

"Suit for You" Collection Programme

We collected 60 sets of used business suits and formal work clothing and donated them to help university students, graduates and students with special education needs who live on very tight budgets.

"The second-hand suit let me dress and present myself more. At interview, first impressions are important. Therefore, being well dressed could show your confidence and your understanding of the post."

Ricky Ng, student beneficiary

Mooncake and X'mas Hamper Collection

To minimise festive wastage, we encouraged Talents to donate excess mooncakes, Christmas and festive foods to those in need, and invited our business partners to reallocate their mooncake budgets toward charity.

Sustainable Sanitary Pads Workshop

Due to poverty, half of all women in Kenya cannot afford sanitary pads. We arranged a workshop with SAWAfrica and used surplus fabrics to make sustainable sanitary pads, which were subsequently delivered to women in Kenya.

Environment

During FY19, there was no substantiated case of non-compliance with environmental laws or regulations relating to emissions. In terms of waste management, we have complied with Waste Disposal (Chemical Waste) (General) Regulation (Cap. 354C of the Laws of Hong Kong) and the Hazardous Chemicals Control Ordinance (Cap. 595 of the Laws of Hong Kong).

▲ Championing eco-engagement, we organised a fun workshop demonstrating how Talents could use smart mobile technology to grow and care for their very own plants.

Awards

Awards & Recognition	Conferred by
Hong Kong Awards for Environmental Excellence (Media and Communication) – Gold Award	Environmental Campaign Committee
Carbon Care Label – Level 3	CarbonCare InnoLab
Hong Kong Green Organization	Environmental Campaign Committee
WasteWi$e Certificate	Environmental Campaign Committee
Charter on External Lighting	Environment Bureau
Energy Saving Charter 2019 and 4T Charter	Environment Bureau
The Green Mid-Autumn Festival Food Saving Pledge	Food Grace
Food Wise Charter	Environmental Protection Department

The Directors are pleased to present this "Corporate Governance Report" for the year ended 31 August 2019.

Corporate Governance Practices

The Company is committed to the establishment of a good standard of corporate governance practices by emphasising transparency, accountability and responsibility to our stakeholders, which are considered essential to safeguard the integrity of the Group's operations and maintain stakeholder trust in the Company.

Corporate Governance Practices and Corporate Governance Code

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 the year ended 31 August 2019 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 and comprise a majority of Independent Non-executive Directors. However, the Nomination Committee of the Company is chaired by Mr. Chu Kwong 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 their respective 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 the Nomination Committee by leading the process of identifying suitable candidates and making recommendations to the Board.

In respect of the composition, although the Nomination Committee does not comprise a majority of Independent Non-executive Directors of the Company (i.e. current composition of Nomination Committee is three Independent Non-executive Directors, two Non-executive Directors and one Executive Director), it would not materially and negatively affect the role of the Nomination Committee, which is to make recommendations to the Board impartially, rather than itself having the power to make decisions or take actions regarding nomination and/or removal of the Directors of the Company. Furthermore, the two Non-executive Directors and one Executive Director who sit on the Nomination Committee are valuable because of their industry related experience, hence they could give valuable comments on and make good selections on nominations for the Board or senior management of the Company.

Board of Directors

Roles and Responsibilities

The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors make decisions objectively in the interests of the Company.

Physical Board meetings are normally held. Matters which are immaterial and may not cause potential conflicts of interest will be dealt with by way of written resolutions. The Company Secretary prepares minutes which are recorded in sufficient detail of matters considered by the Board and the decisions reached, with the final version open for inspection at any reasonable notice by any Director. The Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings with reasonable advance notice.

The day-to-day management, administration and operation of the Company are delegated to the Executive Vice-chairman, Chief Executive Officer and the senior management of the Group. The delegated functions and work tasks are periodically reviewed.

Board Composition

The Board currently comprises eight Directors, including two Executive Directors (Mr. Chu Kwong YEUNG and Mr. Ni Quiaque LAI), three Non-executive Directors (Ms. Deborah Keiko ORIDA, Mr. Zubin Jamshed IRANI and Mr. Teck Chien KONG) and three Independent Non-executive Directors (Mr. Bradley Jay HORWITZ (Chairman), Mr. Stanley CHOW and Mr. Yee Kwan Quinn LAW). The Directors' biographical details are set out in the "Board of Directors and Senior Management" chapter on pages 12 to 19. None of the members of the Board are related to one another.

Chairman and Chief Executive Officer

As at 31 August 2019, the roles of the Chairman and the Chief Executive Officer are served by Mr. Bradley Jay HORWITZ and Mr. Ni Quiaque LAI respectively. The Chairman is responsible for leadership of the Board and for ensuring that the Board functions effectively and acts in the best interests of the Company. In performing the role of Chairman, responsibilities mainly include:

(a) providing leadership and ensuring effective performance by the Board of its responsibilities, including that it acts in the Company's best interests;

(b) ensuring that all key and appropriate issues are discussed by the Board in a timely manner;

(c) leading the Board in establishing good corporate governance practices and procedures for the Group;

(d) encouraging constructive and timely communication between the Board and the management; and

(e) ensuring effective communication with shareholders and ensuring that their views are communicated to the Board.

Subject to specific delegations by the Board from time to time, in performing the role of Chief Executive Officer, responsibilities include:

(a) leading the management in the daily operations of the Group;

(b) recommending policies, business plans and strategic directions for the Board's approval;

(c) ensuring that strategies and policies approved by the Board are effectively implemented; and

(d) keeping the Board informed of material developments in the Group's business.

Independent Non-executive Directors

During the year ended 31 August 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise, and appointed Independent Non-executive Directors representing at least one-third of the Board.

In addition, the Company has received from each of the Independent Non-executive Directors a confirmation of their independence for the year ended 31 August 2019 pursuant to Rule 3.13 of the Listing Rules, and considered all of them to be independent.

Appointment and Re-Election of Directors

The appointment of a new Director is made on the recommendation of the Nomination Committee and the Board and by the shareholders in a general meeting. Any Director who is appointed by the Board to fill a casual vacancy on the Board shall retire at the first general meeting after appointment. Any Director who is appointed as an addition to their number shall hold office only until the next following annual general meeting.

Currently, all Directors are subject to retirement by rotation at least every three years and re-election in accordance with the provision of the Listing Rules and the Articles. At least one-third of Directors shall retire from office every year at the Company's annual general meeting.

Directors' Training

According to the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. As such, briefing materials are provided to each newly appointed Director (if any) to ensure that the Director is familiar with the role of the Board, the legal and other duties and responsibilities necessitated as Director as well as the business and corporate governance practices of the Company.

All Directors have provided a record of the training they received during the year ended 31 August 2019 to the Company, which includes attending professional seminars, trainings organised by the Company Secretary and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

Directors' Liability Insurance and Indemnity

The Company maintains appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended 31 August 2019, no claim was made against the Directors.

Meetings

The Board meets on a regular and on an ad hoc basis, as required by business needs. The attendance of each Director at the Board meetings, committee meetings and general meetings during the year ended 31 August 2019 is set out in the following table:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
	Number of Meetings Attended/Held [1]				
Chairman and Independent Non-executive Director					
Mr. Bradley Jay HORWITZ	**6/8**	3/3	2/4[2]	1/1	0/3
Executive Directors					
Mr. Chu Kwong YEUNG	**8/8**	3/3[2]	4/4	1/1	2/3
Mr. Ni Quiaque LAI	**8/8**	3/3[2]	4/4[2]	1/1[2]	3/3
Non-executive Directors					
Ms. Deborah Keiko ORIDA	**7/8**	1/3[2]	1/4[2]	1/1	0/3
Mr. Zubin Jamshed IRANI[3]	**4/8**	1/3	1/4	N/A	0/3
Mr. Teck Chien KONG[3]	**4/8**	N/A	1/4[2]	0/1	0/3
Independent Non-executive Directors					
Mr. Stanley CHOW	**6/8**	3/3	4/4	1/1	3/3
Mr. Yee Kwan Quinn LAW	**7/8**	3/3	4/4	1/1	3/3

Notes:

(1) *Directors may attend meetings in person, or by means of telephone or video conference in accordance with the Articles. The figures exclude resolutions in writing signed by all Directors.*

(2) *By invitation*

(3) *Mr. Zubin Jamshed IRANI and Mr. Teck Chien KONG were appointed as the Non-executive Directors of the Company on 30 April 2019. During the period from 30 April 2019 to 31 August 2019, there were four Board Meetings, one Audit Committee Meeting, two Remuneration Committee Meetings, nil Nomination Committee Meeting and one General Meeting.*

Board Committees

The Board has established three Board committees, namely the Remuneration Committee, the Nomination Committee and the Audit Committee.

Remuneration Committee

The Remuneration Committee was established with written terms of reference which are available for view on the Company's website and the website of Hong Kong Exchanges and Clearing Limited ("HKEX").

The Remuneration Committee currently comprises four members, namely Mr. Stanley CHOW, Mr. Yee Kwan Quinn LAW, Mr. Chu Kwong YEUNG and Mr. Zubin Jamshed IRANI. The Chairman of the Remuneration Committee is Mr. Stanley CHOW, an Independent Non-executive Director of the Company.

The primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration, make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, make recommendations to the Board on the remuneration of Non-executive Director and Independent Non-executive Directors and the Company's Co-Ownership Plan(s), and review and approve the compensation arrangement for Directors and senior management in the event of loss or termination of office.

During the year ended 31 August 2019, the Remuneration Committee held four physical meetings to review the remuneration package and discretionary bonus of Directors, senior management and Talents, review the remuneration policy of the Company, as well as proposed the adoption of Co-Ownership Plan III Plus and made recommendations for the Board's approval.

Pursuant to B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 August 2019 is set out in note 6 to the "Notes to the Financial Statements".

Nomination Committee

The Board has a Nomination Committee with written terms of reference in compliance with the CG Code, except for the deviation of Code Provision A.5.1 of the CG Code (please refer to the section under "Corporate Governance Practices and Corporate Governance Code" on page 102 for details), setting out the duties and authority of the Nomination Committee. The terms of reference of the Nomination Committee are available for view on the Company's website and HKEX's website.

The Nomination Committee currently comprises six members, namely Mr. Stanley CHOW, Mr. Bradley Jay HORWITZ, Ms. Deborah Keiko ORIDA, Mr. Yee Kwan Quinn LAW, Mr. Chu Kwong YEUNG and Mr. Teck Chien KONG. The Chairman of the Nomination Committee is Mr. Chu Kwong YEUNG, an Executive Director of the Company.

The principal duties of the Nomination Committee are to review the structure, size and composition of the Board and the Board committees, review the Nomination Policy and the Board Diversity Policy on a regular basis to ensure their continued effectiveness, make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identify individuals suitably qualified to become Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships, assess the independence of Independent Non-executive Directors of the Company, and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

During the year ended 31 August 2019, the Nomination Committee held one physical meeting to assess the independence of Independent Non-executive Directors, consider the re-election of the retiring Directors at the forthcoming annual general meeting of the Company, as well as review the composition of the Board.

Nomination Policy

The policy sets out the criteria, procedures and process to be adopted when considering candidates to be appointed or re-appointed as directors. The main provision of the policy is set out below:

Nomination Criteria

When selecting a candidate to be nominated for directorship or re-appointment, considerations will be given to the following:

(a) age, gender, skills, knowledge, experience, expertise, professional and educational qualifications, background and other personal qualities of the candidate;

(b) effect on the Board's composition and diversity;

(c) ability and commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices held by the candidate in public companies or organisations, and other executive appointments or significant commitments should be considered;

(d) potential/actual conflicts of interest that may arise if the candidate is selected;

(e) the contributions that the candidate is expected to bring;

(f) independence of the candidate; and

(g) other factors considered to be relevant on a case by case basis.

Nomination Procedures and Process

The following is a summary of the nomination procedures and process adopted by the Company for newly appointed or re-appointed Directors based on the criteria set out above.

Shareholders

- Vote on the Directors' election at the Company's annual general meeting

↑

Board

- Deliberates and decides on the appointment based upon the recommendation of the Nomination Committee
- Newly appointed Directors may only hold office until the next annual general meeting of the Company under the Articles. If eligible, they would stand for election by the shareholders at the first annual general meeting following their appointment. A circular accompanying the notice of the annual general meeting containing all relevant information would be sent to shareholders by the Board.

↑

Nomination Committee

- Identifies or selects candidates, with or without assistance from external agencies or the Company, pursuant to the criteria set out above
- May use any process it deems appropriate to evaluate the candidates, which may include personal interviews, background checks, presentations, written submissions by the candidate or third-party reference
- Provides all relevant information and makes recommendation to the Board, including the terms and conditions of the appointment

Corporate Governance Report

Board Diversity Policy

The Company recognises the benefit and value of diversity across the organisation, and endorses the view that a diverse Board, with a breadth of perspective, is one of the key drivers of an effective Board. The main part of the policy is set out below:

In considering and reviewing board composition, both the Nomination Committee and the Board will consider the benefits of all aspects of diversity, including age, gender, skills, knowledge, cultural, experience, expertise, professional and educational qualifications, background and other personal qualities of the directors. While the ultimate decision on all Board appointments would be based on meritocracy and the contributions that the Director candidate is expected to bring, considerable weight would be given to ensuring a diverse Board with balanced composition.

During the year ended 31 August 2019, the Nomination Committee and the Board considered that the composition of the Board was balanced and diversified.

The policy will be reviewed periodically to ensure it remains relevant to the Company's needs and reflects both regulatory requirements and good corporate governance practices.

An analysis of the Board's current composition based on the measurable objectives is set out below:

Gender

Male
7 Directors

Female
1 Director

Designation

Executive Directors
2 Directors

Non-executive Directors
3 Directors

Independent Non-executive Directors
3 Directors

Ethnicity

Chinese
5 Directors

Non-Chinese
3 Directors

Age Group

41-50
3 Directors

51-60
3 Directors

61-70
2 Directors

Educational Background

Science
3 Directors

Business Administration
4 Directors

Arts
2 Directors

Commerce
2 Directors

Accounting & Finance
2 Directors

Legal
2 Directors

Business Experience

Telecommunications
4 Directors

Legal
2 Directors

Banking
3 Directors

Accounting & Finance
2 Directors

Audit Committee

The Audit Committee was established with written terms of reference which are available for view on the Company's website and HKEX's website.

The Audit Committee currently comprises four members, namely Mr. Yee Kwan Quinn LAW, Mr. Stanley CHOW, Mr. Bradley Jay HORWITZ and Mr. Zubin Jamshed IRANI. The Chairman of the Audit Committee is Mr. Yee Kwan Quinn LAW, an Independent Non-executive Director of the Company. The majority of the Audit Committee members are Independent Non-executive Directors. None of the members of the Audit Committee are a former partner of the Company's existing external auditor.

The Audit Committee meets, at least twice a year, with the external auditor to discuss their audit plan and any area of major audit and internal control concern during the audit or review. At least twice a year the Audit Committee meets with the external auditor without the presence of any Executive Directors.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor and any questions of its resignation or dismissal, review of the Company's financial information and oversight of the Company's financial reporting system, risk management system and internal control system and procedures. It is also responsible for reviewing the interim and annual results of the Company.

The audited consolidated financial statements for the year ended 31 August 2019 have been reviewed by the Audit Committee.

During the year ended 31 August 2019, the Audit Committee held three physical meetings with the following summary of work performed:

- reviewed the audited consolidated financial statements, the annual report and the annual results announcement for the year ended 31 August 2018 and recommended them for the Board's approval;
- reviewed and approved the reappointment of KPMG as the Company's auditor, with a recommendation to the Board for the re-appointment of KPMG at the 2018 Annual General Meeting;
- reviewed the internal audit work plan, risk management and internal control systems of the Group during the year;
- reviewed the interim report and the interim results announcement for the six months ended 28 February 2019 and recommended them for the Board's approval; and
- discussed the audit plan with the external auditor and reviewed the professional fees for the audit services.

Corporate Governance Functions

The Board is primarily responsible for performing the corporate governance functions of the Company, including the following, which are contained in the Corporate Governance Manual adopted by the Board on 6 February 2015 and updated on 28 May 2019:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring this policy and any other codes of conduct or policies applicable to Talents, Directors and officers of the Company; and
- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Risk Management and Internal Controls

Our risk management structure is based on the best practice model known as the "Three Lines of Defence" model. This framework and its process are designed to manage and mitigate risks rather than eliminate all risks. As such, it does not provide absolute protection against unpredictable risk or uncontrollable events such as natural catastrophes, fraud, and errors of judgement.

First Line of Defence – Risk Management

The Group's operation management includes company policies, risk identification and mitigation, and internal control procedures.

Leaders from different departments are responsible for performing risk assessment, risk ranking, establishing and implementing mitigating actions and reporting to the Internal Risk Management Team (the "IRM") on a yearly basis through the Departmental Risk Register.

Internal Control

The Group adopted an integrated framework of internal controls consistent with the "Committee of Sponsoring Organisations of the Treadway Commission" framework (the "framework"). Under this framework, management is responsible for the design, implementation and maintenance of internal controls to ensure appropriate policies and control procedures have been designed and established to safeguard our assets against improper use or disposal; ensuring that relevant laws, rules and regulations are adhered to and complied with; and that reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements. Departmental Operating Procedures are established for major operations.

What Could Go Wrong ("WCGW") are identified and controls are established to mitigate those risks. The Company Policy and Business Conduct regulates the behaviour of our Talents which permeate the Group's integrity and ethical values as fundamental principles.

Anti-bribery, Anti-corruption and Conflict of Interest Policy outline our expected conduct to ensure we are always in compliance with anti-corruption laws, such as the Prevention of Bribery Ordinance (Cap.201) ("the Ordinance"). This includes compliance with all laws, domestic and foreign, prohibiting improper payment, gifts or inducement s of any kind to and received from any person, including officials in the private or public sector, customers and suppliers. Training is provided to all new joiners and refresher training also provided to selected departments. During FY19, 8 trainings were provided for over 600 Talents. Any suspected cases are investigated by Audit and Risk Department and result is reported directly to Audit Committee. Appropriate action will be taken on a case by case basis. During FY19, there was no material legal action against the Group for non-compliance of any related laws and regulations.

A Speak Up Policy is in place to facilitate Talents and other stakeholders to report concerns to us about suspected unethical behaviour or malpractice in confidence and without fear of reprisal, victimisation, subsequent discrimination, disadvantage or dismissal. Audit and Risk Department is responsible for undertaking any investigation. Result is reported to Audit Committee directly and appropriate actions will be taken.

An updated **Information Security Team** was established during the year, mainly responsible for establishing security policies and procedures, implement hardware and software contents for network security, and monitor for threats to our system. By ensuring the design of IT and network infrastructure is aligned with the best security practices, it reduces the security related risks for the Company. In FY19, the team has updated the Information Security Policy which outlines a set of rules about maintaining the confidentiality, integrity, and availability of the Company's information and establishes the responsibilities for all Talents, contractors and third-party users in relation to information security.

Cybersecurity

Numerous security measures were applied and carried out by our Information Technology and Information Security Departments. From network segmentation to end-point protections and continuous vulnerability scanning on our network and applications have been implemented to ensure we have identified any risks in our systems.

Human error is an inherent risk in any cybersecurity issue. In light of this, we have raised security awareness of our Talents through ongoing training and phishing simulations. Security training is incorporated as part of each newly joined Talent's training.

Second Line of Defence – Risk Oversight

The second line of defence is overseen by the Internal Risk Management Team ("IRM") whose composition comprises nominated department heads and executives. The team is responsible for (i) understanding risks that are affecting the Group, and (ii) ensuring major risks are addressed with appropriate actions.

Internal Risk Management Team ("IRM") ensures appropriate actions are taken on risks affecting the Group's business, operations and ESG related issues. The IRM team meets twice a year and from time to time when needed to review risks affecting the Group's operation. The Group Risk Register is the result of a top down risk assessment from the corporate level and is complemented by a bottom up approach of separate risk registers reported by different departments.

Third Line of Defence – Independent Assurance

The Group's internal audit function is performed by the Audit and Risk Department ("ARD"). It is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's internal control and risk management systems. It also assists management in assessing the risks inherent in particular businesses or functional areas, including fraud or corruption, and conducts reviews or audits to provide reasonable, though not absolute, assurance that adequate governance and controls are in place to address such risks. The ARD has a reporting line to the Chief Executive Officer and has direct access to the Chairman of the Audit Committee.

Internal audit reports on control effectiveness are submitted to the Audit Committee in line with the agreed audit plan. The annual audit plan is prepared based on the major risks identified during the latest risk review. This audit plan is subject to changes according to the outcome of continuous risk review processes, and any proposed changes to the audit plan will be communicated to and approved by the Audit Committee accordingly.

External Assurance and Consultation

External auditor and consultants further supplement the third line of defence by providing independent assessment on the Group's processes, especially with respect to the significant risks and control issues identified over the financial reporting process.

Risk Management and Principal Risks

It is our commitment to launch services quickly and meet market demands at a fast pace to pursue long-term growth in our business. Because we embrace risk as an inherent component in our daily operation, we take an "enterprise-wide approach" for the management of key business risks. This approach provides consistent processes to identify, assess, treat, monitor and communicate key risks.

Principal Risks

The Group faces several risks and uncertainties which, if not properly managed, could create an adverse exposure for the Group. Through the effectiveness of risk management, risks are managed with appropriate mitigation measures in place to minimise the exposure. In FY19, the Group has identified the following principal risks:

Risk Context Establishment and Risk Identification

Risk criteria is assessed based on our Group's objectives. Following this, we examine our strategic planning process and daily management of the business to identify internal and external events that may affect the achievement of the Group's objectives

Risk Evaluation

Identify the cause and source of the risks, and rank the potential impact on business and likelihood of a risk occurring both quantitatively and qualitatively

Risk Monitoring and Reporting

Once an appropriate risk treatment has been determined, department heads and the IRM perform ongoing and periodic monitoring of the risks and ensure that appropriate responses, controls and preventive actions are in place

Risk Treatment (Mitigation and Action)

Treatment is identified and determined as to whether or not it reduces the residual risk to an acceptable level, if not, further treatments are considered until the residual risks are reduced to an acceptable level

Potential risks	Potential impact	Mitigating actions
Market		
The Group operates in markets which may be subject to pricing and other competitive pressures.	The effects of competition on our business are uncertain and are dependent on a variety of factors, including economic conditions, regulatory development, technological development, the behaviour of customers and competitors, and the effectiveness of the measures we adopt in response to the competition we face.	• Proactively monitor market conditions • Conduct responsive project management to allow flexible allocation of resources for strategy changes • Closely monitor price levels and act accordingly
Financial (Interest Rate Risk)		
A significant amount of indebtedness and the majority of our indebtedness bear floating interest rates determined by reference to HIBOR, which is subject to market movements and may increase in the future.	Any significant increase in interest rates could increase our finance costs and adversely affect our profitability.	• Continue to enter into interest-rate swaps to hedge against our interest rate risks • Proactively monitor interest rates and act upon the changes to minimise the risks (Details are set out in note 31(c) to the "Notes to the Financial Statements".)

Potential risks	Potential impact	Mitigating actions
Operations		
The continuity of our services is highly dependent on the proper functioning of our network and infrastructure as well as proper handling of customer data.	Any damage to or failure in our network or such infrastructure could adversely affect our business. Leakage of customer data could adversely affect the Group's reputation, operations and financial performance.	• An effective and efficient Information Technology Policy and IT Security Policy are in place • Continuous monitoring of network status • Continuously update the incident response and business recovery policy and procedures and conduct drills • Undertake frequent reviews of our network security and perform periodic upgrades of our network • Provide network/IT security awareness training for all Talents • Continuously review and update our customer data collection and retention policy
People		
The Group's success is dependent upon continued service from Talents employed by our Group.	The loss of key personnel, or the inability to find additional qualified personnel, could materially and adversely affect the Group's prospects and results of operations.	• The Group has a succession planning strategy in place for key management positions
Technology		
The telecommunications industry is characterised by rapidly changing technology and industry standards, evolving customer demands and services with increasingly short life cycles.	If we cannot implement new technology expediently and offer new services demanded by our customers in a timely manner and at competitive prices, our business, financial conditions, operations and prospects could be adversely affected.	• A network strategy plan is in place to enhance network agility and our ability to cope with evolving technology • New services are provided to customers by partnering with industry leaders
Legal & Regulatory		
The Group operates in markets and industries which require compliance with legal and regulatory requirements.	Failure to comply with applicable legal and regulatory requirements may adversely affect the Group's reputation, operations and financial performance.	• Audit and Risk Department will conduct compliance review on business activities and new initiatives where appropriate • Legal and Regulatory Department (LRD) will review contracts before their execution • On-going trainings on legal and regulatory compliance will be provided to Talents to promote awareness and ensure compliance

Board Confirmation

The Board has considered and endorsed the Audit Committee's assessment of the effectiveness of risk management and controls systems in the Group. During the year ended 31 August 2019, there was no area of concern identified which might materially affect the operational, financial reporting and compliance controls of the Group, and that the existing risk management and internal control systems remain effective and adequate.

Auditor's Remuneration

During the year ended 31 August 2019, the remuneration paid or payable to the Company's external auditor, KPMG, is set out as follows:

	$'000
Audit services	5,665
Other services[Note]	4,695
	10,360

Note: Other service fee includes the review of the Group's interim financial report amounting to $635,000, tax advisory service amounting to $210,000 and other professional fees mainly in connection with business combination and proposed business combination amounting to $3,850,000.

Directors' Responsibility and Auditor's Responsibility in respect of Financial Statements

The statement of the Directors' responsibility and auditor's statement of reporting responsibilities in respect of the financial statements of the Group for the year ended 31 August 2019 are set out on pages 124 to 126 of this annual report.

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors of the Company. Having made specific enquiries with all Directors, they confirmed that they have complied with the required standard as set out in the Model Code for the year ended 31 August 2019.

Communication with Shareholders

Shareholders' Rights

The general meetings of the Company provide a communication channel between the shareholders and the Board. An annual general meeting of the Company is held each year at a location as may be determined by the Board. Each general meeting, other than an annual general meeting, is called an extraordinary general meeting. The Board may whenever it deems fit convene extraordinary general meetings. Any vote of the shareholders at a general meeting must be taken by poll except where the Chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted by a show of hands.

Procedures for Shareholders to Convene an Extraordinary General Meeting

An extraordinary general meeting could be convened on the written requisition of any two or more members or any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for Sending Enquiries to the Board

The enquiries must be in writing with the detailed contact information of the requisitionists and deposited with the Board or the Company Secretary at the Company's principal place of business in Hong Kong as below:

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

Procedures for Shareholders to Put Forward Proposals at Shareholders' Meetings

There are no provisions in the Company's Articles or the Companies Law of the Cayman Islands for shareholders to put forward new resolutions at general meetings. Shareholders who wish to put forward a new resolution may request the Company to convene a general meeting in accordance with the procedures set out on page 115 in the paragraph under "Procedures for Shareholders to Convene an Extraordinary General Meeting". Detailed procedure for shareholders to propose a person for election as a Director is available under the Corporate Governance section of the Company's website.

Shareholder Communication Policy

The Company has adopted a Shareholder Communication Policy to set out the Company's procedures in providing shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, in order to help shareholders exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.

Dividend Policy

The Company seeks to provide stable and sustainable returns to the shareholders. In determining the dividend pay-out, a number of factors will be considered including return to shareholders, cash needed for the Group's business operations, expansion and inventory, capital expenditure requirements and funding for other business opportunities, as well as a healthy financial buffer for unforeseen market circumstances.

The Company's dividend policy is to pay dividends in an amount of not less than 90% of the AFF with an intention to pay 100% of the AFF in respect of the relevant year/period, after adjusting for potential debt repayment, if required.

The Board will review the policy and dividend pay-out ratio as appropriate from time to time.

Information Disclosure and Investor Relations

The Board and the Company maintain an on-going dialogue with the Company's shareholders and the investment community mainly through the Company's financial reports, annual general meeting and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications and other corporate publications on the Company's website.

Constitutional Documents

The constitutional documents of the Company were adopted by special resolution passed on 21 February 2015 and effective on the Listing Date. There is no change on the constitutional documents of the Company during the year ended 31 August 2019.

KPMG

Independent auditor's report to the shareholders of HKBN Ltd.

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of HKBN Ltd. ("the Company") and its subsidiaries ("the Group") set out on pages 127 to 233, which comprise the consolidated statement of financial position as at 31 August 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 August 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the shareholders of HKBN Ltd. (continued)

(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Accounting for the acquisition of WTT Holding Corp

Refer to note 30 and accounting policies in note 1(f) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
On 30 April 2019, the Group acquired the entire issued share capital of WTT Holding Corp ("the WTT Acquisition") for consideration of $6,644 million, of which (i) $4,295 million was satisfied by allotment and issuance of the Company's shares; and (ii) $2,349 million was satisfied by issuance of the vendor loan notes (the "Vendor Loan Notes"). Goodwill arising from the WTT Acquisition, which represented the excess of the consideration paid over the Group's share of the fair value of the identifiable net assets of the acquired entities. The fair values of the identifiable assets and liabilities acquired in the WTT Acquisition was assessed by the directors based on an independent valuation prepared by a firm of external valuers. The assessment of fair values required the exercise of significant judgements and estimation, particularly in relation to the forecast of future performance of the businesses acquired.	⦿ inspecting the sale and purchase agreements and evaluating management's accounting treatment for the WTT Acquisition with reference to the terms set out in the sale and purchase agreements and the requirements of the prevailing accounting standards; ⦿ obtaining and inspecting the valuation assessments prepared by the external valuers engaged by the Group and on which management's assessment of the fair values of the assets and liabilities acquired was based; ⦿ assessing the external valuers' qualifications, experience and expertise in the assets being valued and considering their objectivity and independence; ⦿ with the assistance of our internal valuation specialists, assessing the valuation methodologies adopted by the external valuers with reference to industry standards and the requirements of the prevailing accounting standards, and challenging the assumptions and critical judgements which impacted their valuation by comparing these assumptions and critical judgements with market data and the Group's business plan supporting the WTT Acquisition;

Independent auditor's report to the shareholders of HKBN Ltd. (continued)

(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Accounting for the acquisition of WTT Holding Corp (continued)

Refer to note 30 and accounting policies in note 1(f) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
We identified the accounting for the WTT Acquisition as a key audit matter because the transaction was significant to the consolidated financial statements and because assessing the fair values of the assets and liabilities acquired can be inherently subjective and requires significant judgements and estimation which increase the risk of error or potential management bias.	• evaluating the information provided by management to the external valuers by inspecting the underlying contracts and relevant underlying documentation; • evaluating management's assessment of the estimated useful lives of (i) brand and trademark; (ii) customer relationships and (iii) backlog, with reference to future operating plans and our knowledge of the industry; and • assessing the disclosures in the consolidated financial statements in respect of the WTT Acquisition with reference to the requirements of the prevailing accounting standards.

Independent auditor's report to the shareholders of HKBN Ltd. (continued)

(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Assessing of potential impairment of goodwill, intangible assets and property, plant and equipment ("PP&E")

Refer to notes 9, 10 and 11 and accounting policies in notes 1(f), 1(h) and 1(i) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The carrying values of the Group's goodwill, intangible assets and PP&E as at 31 August 2019, which amounted to $8,788 million, $4,639 million and $4,342 million, respectively and were contained in one cash-generating unit ("CGU") identified by management, the fixed telecommunications network services. Management performs an annual impairment assessment of its goodwill and the associated intangible assets and PP&E. Management compares the carrying values of the CGU to which the goodwill, intangible assets and PP&E have been allocated against a discounted cashflow forecast to determine the amount of impairment loss which should be recognised, if any. The preparation of a discounted cashflow forecast involves the exercise of significant management judgement, particularly in estimating the long term revenue growth rates and the discount rates applied.	Our audit procedures to assess potential impairment of goodwill, intangible assets and PP&E included the following: • evaluating the Group's identification of CGUs and the value of goodwill, intangible assets and PP&E allocated to the fixed telecommunications network services CGU and assessing the methodology applied by management in the preparation of the discounted cashflow forecast with reference to the requirements of the prevailing accounting standards; • evaluating the discounted cashflow forecast prepared by management by comparing specific data and significant assumptions in the discounted cashflow forecast with the financial budget which was approved by the Board of directors. Our evaluation has taken into account our understanding of the Group's future business plans and the telecommunication sector;

Independent auditor's report to the shareholders of HKBN Ltd. (continued)

(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Assessing potential impairment of goodwill, intangible assets and property, plant and equipment ("PP&E") (continued)

Refer to notes 9, 10 and 11 and accounting policies in notes 1(f), 1(h) and 1(i) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
We identified assessing the potential impairment of goodwill, intangible assets and PP&E as a key audit matter because the impairment assessment prepared by management is complex and contains judgemental assumptions, particularly the long term revenue growth rate and discount rate applied, which could be subject to management bias in their selection.	• comparing the revenue and operating costs included in prior year's discounted cashflow forecast with the current year's performance in order to assess the reasonableness of prior year's forecast and making enquiries of management as to the reasons for any significant variation identified; • comparing the long term revenue growth rate and discount rate adopted in the discounted cashflow forecast with that of comparable companies and external market data; and • obtaining from management sensitivity analysis of long term revenue growth rate and the discount rate adopted in the discounted cashflow forecast and assessing the impact of changes in these key assumptions to the conclusions reached in the impairment assessment and whether there were any indicators of management bias.

Independent auditor's report to the shareholders of HKBN Ltd. (continued)

(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Revenue recognition

Refer to note 2 and accounting policies in note 1(v) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue, which comprises primarily income from fixed telecommunications network services, international telecommunications services, mobile services and product sales, totalled $5,108 million for the year ended 31 August 2019. The accuracy of revenue recorded in the consolidated financial statements is an inherent risk because the group's billing systems are complex, and process large volumes of data including a variety of service packages with price changes in the year.	Our audit procedures to assess the recognition of revenue included the following: ⦿ with the assistance of our information technology specialists, evaluating the design, implementation and operating effectiveness of key internal controls with particular emphasis on: • the capturing and recording of data usage; • authorising rate changes; and • calculating amounts billed to customers. ⦿ assessing the design, implementation and operating effectiveness of key non-automated internal controls over the revenue recognition process; ⦿ reconciling revenue recognised in the telecom billing system to the general ledger and assessing whether the reconciling items were properly supported by underlying documentation, on a sample basis;

Independent auditor's report to the shareholders of HKBN Ltd. (continued)

(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Revenue recognition (continued)

Refer to note 2 and accounting policies in note 1(v) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
Significant management judgement can be required in determining the appropriate measurement and timing of recognition of different elements of revenue within bundled sales packages, which may include telecommunication services and telecommunication products, and complex settings are required in the Group's information technology ("IT") systems to achieve the appropriate allocation of prices for the different elements of revenue. We identified revenue recognition as a key audit matter because it involves management judgement and complex IT systems, both of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.	• assessing, on a sample basis, the standalone selling prices determined by management for each distinct service and product offered in bundled sales packages, by comparison with the observable prices for such services or products when the Group sells such services or products separately in similar circumstances and to similar customers; • evaluating journal entries posted to revenue accounts, on a specific risk-based sample basis, and comparing the details of these journals entries with relevant underlying documentation, which included reports generated from the telecom billing system; and • comparing cash receipts from customers during the year and subsequent to the financial year end with invoices issued to customers during the year, on a sample basis.

Independent auditor's report to the shareholders of HKBN Ltd. (continued)

(Incorporated in the Cayman Islands with limited liability)

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent auditor's report to the shareholders of HKBN Ltd. (continued)

(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report to the shareholders of HKBN Ltd. (continued)

(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Ka Ming, Alice.

KPMG
Certified Public Accountants

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

24 October 2019

Consolidated Income Statement

For the year ended 31 August 2019
(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 *(Note)* $'000
Revenue	2	**5,107,637**	3,948,952
Other net income	3(a)	**29,926**	22,315
Network costs and costs of sales		**(1,834,054)**	(1,247,031)
Other operating expenses	3(b)	**(2,734,600)**	(2,116,987)
Finance costs	3(d)	**(259,271)**	(117,288)
Share of losses of joint ventures	13(b)	**(276)**	(693)
Profit before taxation	3	**309,362**	489,268
Income tax	4	**(94,835)**	(92,371)
Profit for the year attributable to equity shareholders of the Company		**214,527**	396,897
Earnings per share	7		
Basic		**19.4 cents**	39.6 cents
Diluted		**18.4 cents**	39.6 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 1(c).

The notes on pages 133 to 233 form part of these financial statements. Details of dividend payable to equity shareholders of the Company attributable to the profit for the year are set out in note 28(b).

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2019
(Expressed in Hong Kong dollars)

	2019 $'000	2018 *(Note)* $'000
Profit for the year	**214,527**	396,897
Other comprehensive income for the year		
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	**(6,198)**	(4,718)
Total comprehensive income for the year attributable to equity shareholders of the Company	**208,329**	392,179

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 1(c).*

The notes on pages 133 to 233 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 August 2019

(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 (Note) $'000 (Restated)
Non-current assets			
Goodwill	9	**8,788,319**	1,801,393
Intangible assets	10	**4,638,643**	1,453,588
Property, plant and equipment	11	**4,341,590**	2,293,950
Investment properties	11	**222,041**	–
Customer acquisition and retention costs	15	**598,030**	–
Contract assets	16	**4,740**	–
Interest in joint ventures	13	**9,429**	8,095
Other non-current assets	14	**32,105**	64,950
		18,634,897	5,621,976
Current assets			
Inventories	15	**29,168**	32,704
Trade receivables	17	**557,439**	247,210
Other receivables, deposits and prepayments	17	**240,894**	292,646
Contract assets	16	**241,717**	–
Amounts due from joint ventures	22	**15,093**	8,544
Cash and cash equivalents	18	**662,816**	373,293
		1,747,127	954,397
Current liabilities			
Trade payables	19	**365,976**	138,918
Other payables and accrued charges – current portion	19	**907,317**	461,373
Contract liabilities – current portion	16	**219,763**	–
Deposits received		**72,443**	69,343
Deferred services revenue – current portion		**–**	98,653
Obligations under granting of rights – current portion	26	**9,024**	9,024
Amounts due to joint ventures	22	**10,750**	10,000
Contingent consideration – current portion	27	**1,371**	11,471
Tax payable	24	**158,480**	109,410
		1,745,124	908,192
Net current assets		**2,003**	46,205
Total assets less current liabilities		**18,636,900**	5,668,181

Consolidated Statement of Financial Position

At 31 August 2019 (continued)
(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 (Note) $'000 (Restated)
Non-current liabilities			
Other payables and accrued charges – long-term portion	19	**143,600**	201,266
Contract liabilities – long-term portion	16	**187,690**	–
Deferred services revenue – long-term portion		**–**	79,371
Obligations under granting of rights – long-term portion	26	**15,795**	24,819
Deferred tax liabilities	25	**1,131,440**	408,218
Contingent consideration – long-term portion	27	**28,278**	28,236
Provision for reinstatement costs		**50,146**	15,643
Bank loans	20	**4,454,253**	3,873,716
Senior notes	21	**5,169,137**	–
		11,180,339	4,631,269
NET ASSETS		**7,456,561**	1,036,912
CAPITAL AND RESERVES			
Share capital	28(c)	**132**	101
Reserves		**7,456,429**	1,036,811
TOTAL EQUITY		**7,456,561**	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 1(c). Additionally, the comparative information in respect of the year ended 31 August 2018 has been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 1(b)(i).*

Approved and authorised for issue by the board of directors on 24 October 2019.

Chu Kwong YEUNG)
) Directors
Ni Quiaque LAI)

The notes on pages 133 to 233 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 August 2019
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company and holders of Vendor Loan Notes							
	Note	Share capital $'000	Share premium $'000	Vendor Loan Notes $'000	Capital reserve $'000	Other reserve $'000	Retained profits $'000	Exchange reserve $'000	Total $'000
Balance 1 September 2017		101	105,880	–	27,192	596,420	403,382	(4,087)	1,128,888
Changes in equity for the year ended 31 August 2018:									
Profit for the year		–	–	–	–	–	396,897	–	396,897
Other comprehensive income		–	–	–	–	–	–	(4,718)	(4,718)
Total comprehensive income		–	–	–	–	–	396,897	(4,718)	392,179
Dividend approved to equity shareholder of the Company in respect of the previous year	28(b)(ii)	–	(105,880)	–	–	–	(125,423)	–	(231,303)
Dividend declared to equity shareholder of the Company in respect of the current year	28(b)(i)	–	–	–	–	–	(261,473)	–	(261,473)
Equity-settled share-based transactions	23(a)	–	–	–	8,621	–	–	–	8,621
Balance at 31 August 2018 *(Note)*		101	–	–	35,813	596,420	413,383	(8,805)	1,036,912
Impact on initial application of HKFRS 15		–	–	–	–	–	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 year ended 31 August 2019:									
Profit for the year		**–**	**–**	**–**	**–**	**–**	**214,527**	**–**	**214,527**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**(6,198)**	**(6,198)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**214,527**	**(6,198)**	**208,329**
Issue of ordinary shares	28(c)	**31**	**4,295,264**	**–**	**–**	**–**	**–**	**–**	**4,295,295**
Issue of Vendor Loan Notes	29	**–**	**–**	**2,349,204**	**–**	**–**	**–**	**–**	**2,349,204**
Dividend approved to equity shareholders of the Company in respect of the previous year	28(b)(ii)	**–**	**–**	**–**	**–**	**–**	**(301,700)**	**–**	**(301,700)**
Dividend declared to equity shareholders of the Company in respect of the current year	28(b)(i)	**–**	**(445,944)**	**–**	**–**	**–**	**–**	**–**	**(445,944)**
Distribution to holders of Vendor Loan Notes		**–**	**(56,890)**	**–**	**–**	**–**	**–**	**–**	**(56,890)**
Equity-settled share-based transactions	23(a)	**–**	**–**	**–**	**3,099**	**–**	**–**	**–**	**3,099**
Balance at 31 August 2019		**132**	**3,792,430**	**2,349,204**	**38,912**	**596,420**	**694,466**	**(15,003)**	**7,456,561**

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 1(c).*

The notes on pages 133 to 233 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 August 2019

(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 (Note) $'000
Operating activities			
Cash generated from operations	18(b)	**1,469,569**	1,192,771
Tax paid:			
– Hong Kong Profits Tax paid		**(111,512)**	(111,177)
– Tax paid outside Hong Kong		**(5,884)**	(5,057)
Net cash generated from operating activities		**1,352,173**	1,076,537
Investing activities			
Payment for the purchase of property, plant and equipment		**(413,860)**	(433,301)
Payment for the purchase of investment properties		**(191,431)**	–
Proceeds from sale of property, plant and equipment		**4,795**	1,913
Payment for contingent consideration		**(11,600)**	(19,324)
Payment for acquisition of subsidiaries	30(c)	**(296,390)**	(9,501)
Cash from acquisition of subsidiaries	30(a)	**355,172**	–
Payment for investment in joint ventures		**(810)**	–
Interest received		**4,083**	1,641
Net cash used in investing activities		**(550,041)**	(458,572)
Financing activities			
Proceeds from bank loans	18(c)	**974,365**	–
Repayment of bank loans	18(c)	**(400,000)**	(2,792)
Interest paid on interest-rate swap	18(c)	**(8,850)**	(6,833)
Interest paid on bank loans	18(c)	**(126,915)**	(96,743)
Interest paid on senior notes	18(c)	**(144,636)**	–
Transaction costs paid for bank loans	18(c)	**(484)**	(29,859)
Dividend paid to the equity shareholders of the Company		**(747,644)**	(492,777)
Dividend paid to the holders of Vendor Loan Notes		**(56,890)**	–
Net cash used in financing activities		**(511,054)**	(629,004)
Net increase/(decrease) in cash and cash equivalents		**291,078**	(11,039)
Cash and cash equivalents at the beginning of the year	18(a)	**373,293**	385,052
Effect of foreign exchange rate changes		**(1,555)**	(720)
Cash and cash equivalents at the end of the year	18(a)	**662,816**	373,293

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 1(c).*

The notes on pages 133 to 233 form part of these financial statements.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 August 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that contingent consideration, share-based payments and derivative financial instruments are stated at their fair values as explained in the accounting policies set out below in notes 1(f), 1(s) and 1(g).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 37.

1 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

(i) Restatement of prior year's financial statements as a result of finalised purchase price allocation of prior year acquisition

During the year ended 31 August 2018, the Group acquired the entire shares of I Consulting Group Limited ("ICG") and its subsidiary ("ICG Acquisition") of which the valuations have not been completed and the respective fair values of the identifiable net assets and goodwill were determined provisionally.

During the year ended 31 August 2019, the Group made certain fair value adjustments, with reference to the finalised independent valuation, to the carrying amounts of the identifiable assets and liabilities of ICG and its subsidiary as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable net assets were made as if initial accounting had been completed on the acquisition date. The amortisation of the respective assets subsequent to the acquisition date was not adjusted as the financial impact is not material. Accordingly no restated consolidated income statement and consolidated statement of comprehensive income for the year ended 31 August 2018 is presented.

The above restatements relate to acquisition which was effected during the year ended 31 August 2018 and hence have no financial impact on the consolidated financial position as at 1 September 2017. Accordingly no restated consolidated statement of financial position as at 1 September 2017 is presented.

Restated consolidated statement of financial position as at 31 August 2018

	As originally stated $'000	Adjustments $'000	As restated $'000
Total non-current assets	5,626,776	(4,800)	5,621,976
Total current assets	954,397	–	954,397
Total current liabilities	(915,318)	7,126	(908,192)
Total non-current liabilities	(4,628,943)	(2,326)	(4,631,269)
Total equity attributable to equity shareholders of the Company	1,036,912	-	1,036,912

Details of the financial line items as restated in the consolidated statement of financial position as at 31 August 2018 include the following:

	As originally stated $'000	Adjustments $'000	As restated $'000
Non-current assets			
Goodwill	1,804,904	(3,511)	1,801,393
Intangible assets	1,454,877	(1,289)	1,453,588
Current liabilities			
Contingent consideration – current portion	(18,597)	7,126	(11,471)
Non-current liabilities			
Deferred tax liabilities	(408,431)	213	(408,218)
Contingent consideration – long-term portion	(25,697)	(2,539)	(28,236)

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(c) Change in accounting policies

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:

(i) HKFRS 9, *Financial instruments*

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

(iii) 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.

(i) 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 recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 September 2018. Therefore, comparative information continues to be reported under HKAS 39.

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

a. Classification of financial assets and financial liabilities

HKFRS 9 categories 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. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(c) Change in accounting policies (continued)

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

a. Classification of financial assets and financial liabilities (continued)

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policies in notes 1(g), (k)(i), (n) and (r).

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 1(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.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (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 1(c)).

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

For further details on the Group's accounting policy for accounting for credit losses, see note 1(k)(i) and (ii).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(c) Change in accounting policies (continued)

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

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated, the information presented for the year ended 31 August 2018 continues to be reported under HKAS 39.

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) 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.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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 of equity at 1 September 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 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 (note 15(b))	433,755
Related tax	(65,499)
Net increase in retained profits at 1 September 2018	368,256

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(c) Change in accounting policies (continued)

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

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

a. 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 standalone 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.

1 Significant accounting policies (continued)

(c) Change in accounting policies (continued)

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

b. 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.

c. 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:

(i) Amount of $150,949,000 which was previously included in other receivables, deposits and prepayments (note 17) is now included under contract assets (note 16(a));

(ii) Amount of $98,653,000 which was previously included in deferred services revenue – current portion is now included under contract liabilities – current portion (note 16(b)); and

(iii) 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 (note 16(b)).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(c) Change in accounting policies (continued)

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

d. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 August 2019 as a result of the adoption of HKFRS 15 on 1 September 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 August 2019, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2019 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) $'000	Hypothetical amounts under HKASs 18 and 11 (B) $'000	Difference: Estimated impact of adoption of HKFRS 15 on 2019 (A) – (B) $'000
Line items in the consolidated income statement for year ended 31 August 2019 impacted by the adoption of HKFRS 15:			
Other operating expenses	(2,734,600)	(2,725,708)	(8,892)
Profit before taxation	309,362	318,254	(8,892)
Income tax	(94,835)	(98,848)	4,013
Profit for the year	214,527	219,406	(4,879)
Profit attributable to equity shareholders of the Company	214,527	219,406	(4,879)
Earnings per share ($ cents)			
Basic	19.4	19.8	(0.4)
Diluted	18.4	18.8	(0.4)
Line items in the consolidated statement of comprehensive income for the year ended 31 August 2019 impacted by the adoption of HKFRS 15:			
Total comprehensive income	208,329	213,208	(4,879)

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(c) Change in accounting policies (continued)

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

d. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 August 2019 as a result of the adoption of HKFRS 15 on 1 September 2018 (continued)

	Amounts reported in accordance with HKFRS 15 (A) $'000	Hypothetical amounts under HKASs 18 and 11 (B) $'000	Difference: Estimated impact of adoption of HKFRS 15 on 2019 (A) – (B) $'000
Line items in the consolidated statement of financial position as at 31 August 2019 impacted by the adoption of HKFRS 15:			
Customer acquisition and retention costs	598,030	–	598,030
Contract assets	4,740	–	4,740
Trade receivables	–	4,740	(4,740)
Total non-current assets	18,634,897	18,036,867	598,030
Trade receivables	557,439	568,245	(10,806)
Contract assets	241,717	–	241,717
Other receivables, deposits and prepayments	240,894	471,805	(230,911)
Total current assets	1,747,127	1,747,127	–
Contract liabilities – current portion	(219,763)	–	(219,763)
Deferred services revenue – current portion	–	(219,763)	219,763
Total current liabilities	(1,745,124)	(1,745,124)	–
Net current assets	2,003	2,003	–
Total assets less current liabilities	18,636,900	18,038,870	598,030
Contract liabilities – long-term portion	(187,690)	–	(187,690)
Deferred services revenue – long-term portion	–	(187,690)	187,690
Deferred tax liabilities	(1,131,440)	(1,069,954)	(61,486)
Total non-current liabilities	(11,180,339)	(11,118,853)	(61,486)
Net assets	7,456,561	6,920,017	536,544
Reserves	7,456,429	6,919,885	536,544
Total equity attributable to equity shareholders of the Company	7,456,561	6,920,017	536,544

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(c) Change in accounting policies (continued)

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

d. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 August 2019 as a result of the adoption of HKFRS 15 on 1 September 2018 (continued)

	Amounts reported in accordance with HKFRS 15 (A) $'000	Hypothetical amounts under HKASs 18 and 11 (B) $'000	Difference: Estimated impact of adoption of HKFRS 15 on 2019 (A) – (B) $'000
Line items in the reconciliation of profit before taxation to cash generated from operations for year ended 31 August 2019 (note 18(b)) impacted by the adoption of HKFRS 15:			
Profit before taxation	309,362	318,254	(8,892)
Increase in trade receivables	(2,922)	(18,468)	15,546
Increase in contract assets	(24,938)	–	(24,938)
Increase in other receivables, deposits and prepayments	(45,334)	(54,726)	9,392
Increase in customer acquisition and retention costs	8,892	–	8,892
Decrease in deferred services revenue	–	(6,292)	6,292
Decrease in contract liabilities	(6,292)	–	(6,292)

The significant differences arise as a result of the changes in accounting policies described above.

1 Significant accounting policies (continued)

(c) Change in accounting policies (continued)

(iii) 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 result of the Group.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in a joint venture (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(e) Joint ventures

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and (k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

1 Significant accounting policies (continued)

(f) Business combination and goodwill

The Group applies the acquisition method to account for business combination. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion
- Leasehold improvements are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives
- Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease

– Cable	5 – 25 years
– Furniture, fixtures and fittings	4 – 5 years
– Telecommunications, computer and office equipment	4 – 25 years
– Motor vehicles	4 – 5 years

- Investment properties are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to profit or loss. Major improvements are capitalised and depreciated over their expected useful lives to the Group.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis or diminishing balance method or unit of production method over the assets' estimated useful lives. The major intangible assets with finite useful lives are amortised from the date of acquisition and their estimated useful lives are as follows:

– Customer relationship – FTNS business	14 – 18 years
– Customer relationship – International telecommunications services ("IDD") business	14 years
– Customer relationship – Broadband wireless ("Wi-Fi") connectivity business	18 years
– Customers relationship – Cloud services	7 years
– Customers relationship – IT business	7 – 18 years
– Brand and trademark – "HKBN" & "WTT" for FTNS business	11 – 20 years
– Brand and trademark – "IDD0030", "IDD1666", "IDD007" & "IDD1507" for IDD business	11 – 14 years
– Brand and trademark – "Y5Zone" for Wi-Fi business	20 years
– Brand and trademark – "ICG" for Cloud services	11 years
– Brand and trademark – "WTT" for IT business	11 years
– Backlog	1.5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases with the following exceptions:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous leasee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(iii) Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset by the Group and the leasing of the same asset back to the Group. The lease payments and the sale price are usually interdependent as they are negotiated as a package. Sale and leaseback arrangements that result in substantially all of the risks and rewards of ownership of assets being transferred to the lessor are accounted for as operating leases. Any excess of sales proceeds over the carrying amount is recognised in profit or loss as gain on disposal, if the sales prices and lease back arrangements for these transactions are determined based on the prevailing market prices. Payments made under operating leases are charged to profit or loss on a straight-line basis over the lease periods.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

(A) Policy applicable from 1 September 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on 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 1 (m)).

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; and

– 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(A) Policy applicable from 1 September 2018 (continued)

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 Group's 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.

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.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(A) Policy applicable from 1 September 2018 (continued)

Significant increases in credit risk (continued)

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)

1 Significant accounting policies (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(A) Policy applicable from 1 September 2018 (continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 1 (v)(vi) 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 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.

(B) Policy applicable prior to 1 September 2018

Prior to 1 September 2018 an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade receivables, other receivables, deposits and prepayments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments and contract assets (continued)

(B) Policy applicable prior to 1 September 2018 (continued)

- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

- For trade receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(k) Credit losses and impairment of assets (continued)

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(A) Policy applicable from 1 September 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(k)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(k) Credit losses and impairment of assets (continued)

(ii) Credit losses from financial guarantees issued (continued)

(B) Policy applicable prior to 1 September 2018

Prior to 1 September 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in "trade and other payables" in respect of the guarantee.

(iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets;

– customer acquisition and retention costs;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(k) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories and other contract costs

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first in, first out cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(l) Inventories and other contract costs (continued)

(i) Inventories (continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see note 1(l)(i)), other property, plant and equipment (see note 1(h)) or intangible assets (see note 1(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, other property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 1(v).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(v)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in note 1(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(n)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(v)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(n)).

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.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(v)).

Policy prior to 1 September 2018

In the comparative period, contract balances were included under "other receivables, deposits and prepayments" (as assets) or "deferred services revenue – current portion" and "deferred services revenue – long-term portion" (as a liability) on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "other receivables, deposits and prepayments". Amounts received before the related work was performed were included under "deferred services revenue – current portion" and "deferred services revenue – long-term portion". These balances have been reclassified on 1 September 2018 as shown in note 16 (see note 1(c)(ii)).

(n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(m)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(k)(i)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(y)).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(k)(ii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Obligations under granting of rights

The obligations under granting of rights to use the Group's services on a free of charge basis as part and parcel of a business combination are recognised initially at fair value. The obligations are amortised over the period which the rights are granted, as follows:

– Rights to use of telecommunications services	10 years

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 1(k)(i).

(s) Talent benefits

(i) Short term Talent benefits

Salaries, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by Talents. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by Talents and a reliable estimate of the obligation can be made.

(iii) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to certain Talents. Contributions to the schemes by the Group are calculated as a percentage of Talents' basic salaries and charged to profit or loss. The Group's contributions are reduced by contributions forfeited by those Talents who leave the scheme prior to vesting fully in the contributions.

The assets of the scheme are held in an independently administered fund that is separated from the Group's assets.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(s) Talent benefits (continued)

(iv) Share-based payments

(a) Equity-settled share-based payments

The fair value of Restricted Share Units ("RSUs") granted to Talents of the Group in Hong Kong under the Co-Ownership Plan II is recognised as a Talent cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the RSUs were granted. Where the Talents have to meet vesting conditions before becoming unconditionally entitled to the RSUs, the total estimated fair value of the RSUs is spread over the vesting period, taking into account the probability that the RSUs will vest.

During the vesting period, the number of RSUs that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original Talent expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of RSUs that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the service condition. The equity amount is recognised in the capital reserve until the RSUs are vested (when it is included in the amount recognised in share premium for the shares vested).

(b) Cash-settled share-based payments

The fair value of the amount payable to Talents of the Group in the People's Republic of China (the "PRC") in respect of RSUs under the Co-Ownership Plan II, which are to be settled in cash and based on the price of the equity instruments of the Company, is recognised as a Talent cost with a corresponding increase in liabilities. Where the Talents have to meet vesting conditions before becoming unconditionally entitled to payment, the total estimated fair value of the RSUs is spread over the vesting period, taking into account the probability that the RSUs will vest. The liability is remeasured at the end of each reporting period and at settlement date. Any changes in the fair value of the liability are recognised as Talent costs in profit or loss.

(c) Share-based payments among group entities

In the Company's statement of financial position, the Company recognises the fair value of the RSUs granted by the Company to the subsidiaries as a capital contribution to the subsidiaries with an increase in its investments in the subsidiaries. The Company recognises the reimbursement by the subsidiaries of this capital contribution by recognising a recharge asset and a corresponding adjustment (credit) to the carrying amount of the investments in the subsidiaries.

1 Significant accounting policies (continued)

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(t) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions, contingent liabilities and onerous contracts

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(u)(ii).

(ii) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(u) Provisions, contingent liabilities and onerous contracts (continued)

(ii) Provisions and contingent liabilities (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(v) Revenue and other income (continued)

(i) Revenue for the provision of international telecommunications and fixed telecommunications network service

Revenue is recognised over time on the basis of units of traffic/data processed and/or contracted fees for telecommunications services that have been provided and based on the relative fair value of the services rendered. Tariff-free period granted to customers are recognised in profit or loss rateably over the term of the service subscription agreement. Amount received in advance for the provision of services is deferred and included under contract liabilities and subsequently recognised as revenue over the related service period.

Revenue from international telecommunications and fixed telecommunications services was recognised on a similar basis in the comparative period.

(ii) Product revenue

Revenue is recognised when the customer takes possession of and accepts the goods. If the goods are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

Revenue for sale of goods was recognised on a similar basis in the comparative period.

(iii) Revenue from system integration services

Revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent that it is probable the contract costs incurred will be recoverable. Accumulated experience is used to estimate the variable consideration to the extent that it is highly probable that a significant reversal will not occur, using the expected value method, to be included in the transaction price.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in note 1(u)(ii).

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(v) Revenue and other income (continued)

(v) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

(w) Research and development costs

Research and development costs of new services and enhancements to existing services are charged to profit or loss as incurred.

(x) Translation of foreign currencies

The Group's functional currency is Hong Kong dollars. Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill and fair value adjustments arising from acquisition, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(aa) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(ab) 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.

2 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, system integration services 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, system integration services and product sales.

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Revenue (continued)

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customer by major products and services lines is as follows:

	2019 **$'000**	2018 $'000
Disaggregated by major products or service lines:		
Fixed telecommunications network services	**3,535,948**	2,823,270
International telecommunications services	**633,176**	413,200
Other services	**627,912**	420,954
Fees from provision of telecommunications services	**4,797,036**	3,657,424
Product revenue	**310,601**	291,528
	5,107,637	3,948,952
Disaggregated by major categories:		
Residential revenue	**2,472,707**	2,278,241
Enterprise revenue	**2,324,329**	1,379,183
Product revenue	**310,601**	291,528
	5,107,637	3,948,952

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

During the years ended 31 August 2019 and 2018, product revenue is recognised at a point-in-time and revenue from the provision of telecommunications services is substantially recognised over time.

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 August 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is $2,999,416,000. This amount represents revenue expected to be recognised in the future from contracts for products or services entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the service is performed or as the work is completed, which is expected to occur over the next 12 to 180 months.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its contracts for products or services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for products or services that had an original expected duration of one year or less.

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Profit before taxation

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

	2019 $'000	2018 $'000
(a) Other net income		
Interest income	**(4,083)**	(1,641)
Net foreign exchange (gain)/loss	**(3,484)**	105
Amortisation of obligations under granting of rights (note 26)	**(9,024)**	(9,024)
Change in fair value of contingent consideration (note 31)	**1,542**	437
Other income	**(14,877)**	(12,192)
	(29,926)	(22,315)
(b) Other operating expenses		
Advertising and marketing expenses	**373,137**	605,149
Amortisation of customer acquisition and retention costs	**240,793**	–
Depreciation (note 11)	**534,758**	425,258
Loss/(gain) on disposal of property, plant and equipment, net	**119**	(203)
Impairment losses on trade receivables (note 31(a))	**52,759**	39,693
Talent costs (note 3(c))	**693,104**	489,816
Amortisation of intangible assets	**276,355**	122,207
Transaction costs in connection with business combination	**75,608**	1,757
Transaction costs in connection with proposed business combination	**9,863**	18,031
Others	**478,104**	415,279
	2,734,600	2,116,987
(c) Talent costs		
Salaries, wages and other benefits	**1,137,395**	893,939
Contributions to defined contribution retirement plan	**71,685**	58,329
Equity-settled share-based payment expenses (note 23(a))	**3,099**	8,621
Cash-settled share-based payment expenses (note 23(b))	**797**	1,290
	1,212,976	962,179
Less: Talent costs capitalised as property, plant and equipment	**(45,133)**	(31,924)
Talent costs included in advertising and marketing expenses and amortisation of customer acquisition and retention costs	**(474,739)**	(440,439)
	693,104	489,816

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)

3 Profit before taxation (continued)

	2019 $'000	2018 $'000
(d) Finance costs		
Interest on bank loans	**134,909**	119,711
Interest on senior notes	**103,424**	–
Interest on interest-rate swaps, net	**8,850**	6,833
Fair value loss/(gain) on interest-rate swaps	**12,088**	(58,531)
Originating fee for banking facility expired (note 20)	**–**	49,275
	259,271	117,288
(e) Other items		
Amortisation of intangible assets (note 10)	**347,962**	172,576
Operating lease charges in respect of land and buildings: minimum lease payments	**92,783**	60,436
Operating lease charges in respect of telecommunications facilities and computer equipment: minimum lease payments	**343,699**	264,681
Auditor's remuneration		
–audit services	**5,665**	2,975
–review services	**635**	325
–tax services	**210**	190
–other services	**3,850**	4,620
Research and development costs	**28,076**	25,045
Cost of inventories	**288,782**	272,946

(Expressed in Hong Kong dollars unless otherwise indicated)

4 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2019 $'000	2018 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	146,864	104,960
Over-provision in respect of prior years	(51)	(29)
Current tax – Outside Hong Kong		
Provision for the year	5,812	5,060
Deferred tax		
Origination and reversal of temporary differences (note 25)	(57,790)	(17,620)
	94,835	92,371

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year.

Income tax expense for the current taxation outside Hong Kong is mainly related to the income tax in the PRC. The Corporate Income Tax rate applicable to the subsidiaries located in the PRC is 25% (2018: 25%) for the year.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 $'000	2018 $'000
Profit before taxation	309,362	489,268
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	52,543	82,349
Tax effect of non-deductible expenses	57,569	28,337
Tax effect of non-taxable income	(749)	(2,976)
Tax effect of tax losses not recognised in prior years utilised during the year	(20,506)	(17,346)
Tax effect of unused tax losses not recognised	2,719	546
Others	3,259	1,461
Actual tax expense	94,835	92,371

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2019						
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments (note (i)) $'000	Total $'000
Executive directors							
Mr. Chu Kwong YEUNG	–	8,838	1,616	998	11,452	267	11,719
Mr. Ni Quiaque LAI	–	6,649	1,076	665	8,390	183	8,573
Non-executive directors							
Ms. Deborah Keiko ORIDA	–	–	–	–	–	–	–
Mr. Zubin Jamshed IRANI (appointed on 30 April 2019)	–	–	–	–	–	–	–
Mr. Teck Chien KONG (appointed on 30 April 2019)	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Bradley Jay HORWITZ	543	–	–	–	543	–	543
Mr. Stanley CHOW	543	–	–	–	543	–	543
Mr. Yee Kwan Quinn LAW	543	–	–	–	543	–	543
	1,629	15,487	2,692	1,663	21,471	450	21,921

	2018						
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments (note (i)) $'000	Total $'000
Executive directors							
Mr. Chu Kwong YEUNG	–	9,542	1,560	956	12,058	793	12,851
Mr. Ni Quiaque LAI	–	6,283	1,040	637	7,960	537	8,497
Non-executive director							
Ms. Deborah Keiko ORIDA	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Bradley Jay HORWITZ	388	–	–	–	388	–	388
Mr. Stanley CHOW	388	–	–	–	388	–	388
Mr. Yee Kwan Quinn LAW	388	–	–	–	388	–	388
	1,164	15,825	2,600	1,593	21,182	1,330	22,512

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Directors' emoluments (continued)

Notes:

(i) These represent the estimated value of RSUs granted to the directors under the Company's Co-Ownership Plan II ("the Plan"). The value of these RSUs is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(s)(iv). The details of these benefits in kind, including the principal terms and number of RSUs granted, are disclosed in note 23.

During the year ended 31 August 2019, there were no amounts paid or payable by the Group to the directors or any of the highest paid individual set out in note 6 below as an inducement to join or upon joining the Group or as a compensation for loss of office (2018: Nil). There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 August 2019 (2018: Nil).

6 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2018: two) are directors whose emoluments are disclosed in note 5. The aggregate of the emoluments in respect of the other three (2018: three) individuals are as follows:

	2019 $'000	2018 $'000
Salaries and other emoluments	**10,566**	11,118
Discretionary bonuses	**4,708**	2,503
Share-based payments	**173**	774
Retirement scheme contributions	**867**	845
	16,314	15,240

The emoluments of the three (2018: three) individuals with the highest emoluments are within the following bands:

	2019 Number of individuals	2018 Number of individuals
$3,500,001 – $4,000,000	**1**	–
$4,000,001 – $4,500,000	**–**	1
$4,500,001 – $5,000,000	**–**	1
$5,000,001 – $5,500,000	**1**	–
$5,500,001 – $6,500,000	**–**	1
$6,500,001 – $7,500,000	**1**	–
	3	3

(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 $214,527,000 (2018: $396,897,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,106,828,000 ordinary shares (2018: 1,002,116,000 ordinary shares) which is calculated as follows:

	2019	2018
	’000	’000
Issued ordinary shares at 1 September	**1,005,666**	1,005,666
Less: shares held for the Co-Ownership Plan II	**(5,666)**	(5,666)
Add: effect of the Co-Ownership Plan II RSUs vested	**3,733**	2,116
Add: effect of issue of new shares (note 28(c))	**103,095**	–
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,106,828**	1,002,116

(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 $214,527,000 (2018: $396,897,000) 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 and Vendor Loan Notes, calculated as follows:

	2019	2018
	’000	’000
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,106,828**	1,002,116
Add: effect of the Co-Ownership Plan II	**269**	1,185
Add: effect of the Vendor Loan Notes	**56,385**	–
Weighted average number of ordinary shares (diluted)	**1,163,482**	1,003,301

8 Retirement benefit costs

The Group contributes to an Occupational Retirement Scheme (the “ORSO Scheme”), a defined contribution retirement scheme, which is available to some of its Talents in Hong Kong. Under the ORSO Scheme, the Talents are required to contribute 5% of their monthly salaries, while the Group’s contributions are calculated at 10% and 5% of the monthly salaries of senior Talents and other Talents respectively. The Talents are entitled to 100% of the employer’s contributions after 10 years of completed service, or at a reduced scale after completion of 3 to 9 years’ service. Contributions to the ORSO Scheme are reduced by contributions forfeited by those Talents who leave the ORSO Scheme prior to vesting fully in the Group’s contributions.

(Expressed in Hong Kong dollars unless otherwise indicated)

8 Retirement benefit costs (continued)

A mandatory provident fund scheme (the "MPF Scheme") has been established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000. The existing Talents of the Group in Hong Kong could elect to join the MPF Scheme, while all new Talents joining the Group in Hong Kong from then onwards are required to join the MPF Scheme. Both the Group and the Talents are required to contribute 5% of each individual's relevant income with a maximum amount of $1,250 per month before 1 June 2014, and commenced from 1 June 2014, the maximum amount has been increased to $1,500, as a mandatory contribution. Employer's mandatory contributions are 100% vested in the Talents as soon as they are paid to the MPF Scheme. Senior Talents may also elect to join a Mutual Voluntary Plan (the "Mutual Plan") in which both the Group and senior Talents, on top of the MPF Scheme mandatory contributions, make a voluntary contribution to the extent of contributions that would have been made under the ORSO Scheme. During the year, forfeited contributions totaling $438,000 (2018: $1,113,000) were used to reduce the current year's level of contributions and $Nil was available at 31 August 2019 (2018: $Nil) to reduce future year's contributions.

Pursuant to the relevant regulations in the PRC, the Group contributes to a defined contribution retirement scheme organised by the local social security bureau for each Talent of the subsidiary in the PRC at the rate of 20% of a standard salary base as determined by the local social security bureau, the rate has been decreased to 14% effective from 1 January 2015 to 31 December 2019. The Group has no other obligation to make payments in respect of retirement benefits of these Talents.

9 Goodwill

	$'000
Cost:	
At 1 September 2016, 31 August 2017 and 1 September 2017	1,771,969
Acquisition of subsidiaries, as restated (note 30)	29,424
At 31 August 2018 and 1 September 2018, as restated	1,801,393
Acquisition of subsidiaries (note 30)	6,986,926
At 31 August 2019	8,788,319
Accumulated impairment losses:	
At 1 September 2017, 31 August 2018, 1 September 2018 and 31 August 2019	–
Carrying amount:	
At 31 August 2019	8,788,319
At 31 August 2018, as restated	1,801,393

(Expressed in Hong Kong dollars unless otherwise indicated)

9 Goodwill (continued)

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") identified as follows:

	2019 $'000	2018 $'000 (Restated)
Telecommunications network services segment	**8,788,319**	1,801,393

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows for the five-year period are estimated based on an average annual growth rate of revenue of 6% (2018: 8%) and a pre-tax discount rate of 12% (2018: 10%). Cash flows beyond the five-year period, matching with the useful lives of the assets employed, are extrapolated using a long-term growth rate of 2% (2018: 2%). The estimated growth rates used are comparable to the growth rate for the industry.

The key assumption used in the value-in-use calculation is the average annual growth rate of revenue of the fixed telecommunications network services (including Wi-Fi connectivity services), which is determined based on the past performance and management's expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the fixed telecommunications network services segment. Any adverse change in the key assumptions could reduce the recoverable amount below carrying amount.

10 Intangible assets

	Customer relationship					Brand and trademark							
	For FTNS business $'000	For IDD business $'000	For Wi-Fi business $'000	For Cloud business $'000	For IT business $'000	For FTNS business $'000	For IDD business $'000	For Wi-Fi business $'000	For Cloud business $'000	For IT business $'000	Backlog $'000	Other intangible assets $'000	Total $'000
Cost:													
At 1 September 2017	1,190,597	164,000	9,296	–	–	471,000	8,000	7,721	–	–	–	399,778	2,250,392
Acquisition of subsidiaries, as restated (note 30)	–	–	–	1,229	–	–	–	–	12,228	–	–	–	13,457
At 31 August 2018, as restated	1,190,597	164,000	9,296	1,229	–	471,000	8,000	7,721	12,228	–	–	399,778	2,263,849
Acquisition of subsidiaries (note 30)	1,695,432	–	–	–	486,543	990,205	40,819	–	–	106,041	213,977	–	3,533,017
At 31 August 2019	2,886,029	164,000	9,296	1,229	486,543	1,461,205	48,819	7,721	12,228	106,041	213,977	399,778	5,796,866
Accumulated amortisation:													
At 1 September 2017	401,954	61,498	2,408	–	–	123,638	3,003	1,801	–	–	–	43,383	637,685
Charge for the year	85,043	11,714	516	248	–	23,550	572	386	178	–	–	50,369	172,576
At 31 August 2018	486,997	73,212	2,924	248	–	147,188	3,575	2,187	178	–	–	93,752	810,261
At 1 September 2018	486,997	73,212	2,924	248	–	147,188	3,575	2,187	178	–	–	93,752	810,261
Charge for the year	117,291	11,714	516	176	9,254	79,748	3,474	386	1,007	6,018	46,771	71,607	347,962
At 31 August 2019	604,288	84,926	3,440	424	9,254	226,936	7,049	2,573	1,185	6,018	46,771	165,359	1,158,223
Net book value:													
At 31 August 2019	2,281,741	79,074	5,856	805	477,289	1,234,269	41,770	5,148	11,043	100,023	167,206	234,419	4,638,643
At 31 August 2018, as restated	703,600	90,788	6,372	981	–	323,812	4,425	5,534	12,050	–	–	306,026	1,453,588

(Expressed in Hong Kong dollars unless otherwise indicated)

10 Intangible assets (continued)

The identifiable intangible assets recognised by the Group upon the business combinations completed on 30 May 2012, 4 January 2013, 31 March 2016, 30 May 2018 and 30 April 2019 include:

- Customer relationship of FTNS and IDD business
- Brand and trademark of FTNS and IDD business, including “HKBN”, “WTT”, “IDD1666”, “IDD0030”, “IDD007”, “IDD1507”
- Customer relationship of Wi-Fi business
- Brand and trademark of Wi-Fi business
- Customer relationship of Cloud business
- Brand and trademark of Cloud business
- Customer relationship of IT business
- Brand and trademark of IT business
- Backlog of FTNS business

The fair value of the intangible assets at the dates of completion of the business combinations were appraised by independent valuers.

Other intangible assets include contractual right to receive future benefits and licences.

(Expressed in Hong Kong dollars unless otherwise indicated)

11 Property, plant and equipment

	Cable $'000	Leasehold land and buildings $'000	Leasehold improvements $'000	Furniture, fixtures and fittings $'000	Telecommunications, computer and office equipment $'000	Motor vehicles $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost:									
At 1 September 2017	52,412	36,148	66,898	4,981	3,847,215	3,567	4,011,221	–	4,011,221
Exchange adjustments	–	–	(279)	(93)	(669)	–	(1,041)	–	(1,041)
Acquisition of subsidiaries (note 30)	–	–	–	22	213	–	235	–	235
Additions	37	–	14,442	735	416,026	–	431,240	–	431,240
Disposals	–	–	(1,779)	(17)	(30,535)	–	(32,331)	–	(32,331)
At 31 August 2018	52,449	36,148	79,282	5,628	4,232,250	3,567	4,409,324	–	4,409,324
At 1 September 2018	52,449	36,148	79,282	5,628	4,232,250	3,567	4,409,324	–	4,409,324
Exchange adjustments	–	–	(796)	(138)	(1,354)	–	(2,288)	–	(2,288)
Acquisition of subsidiaries (note 30)	–	348,226	21,101	1,065	1,792,905	488	2,163,785	–	2,163,785
Additions	–	–	6,147	877	407,712	1,972	416,708	229,371	646,079
Disposals	–	–	(5,118)	(126)	(15,419)	(1,364)	(22,027)	–	(22,027)
At 31 August 2019	52,449	384,374	100,616	7,306	6,416,094	4,663	6,965,502	229,371	7,194,873
Accumulated depreciation:									
At 1 September 2017	42,906	3,119	26,734	2,500	1,644,656	1,516	1,721,431	–	1,721,431
Exchange adjustments	–	–	(224)	(48)	(422)	–	(694)	–	(694)
Charge for the year	3,219	1,008	8,765	767	410,619	880	425,258	–	425,258
Written back on disposals	–	–	(1,779)	(16)	(28,826)	–	(30,621)	–	(30,621)
At 31 August 2018	46,125	4,127	33,496	3,203	2,026,027	2,396	2,115,374	–	2,115,374
At 1 September 2018	46,125	4,127	33,496	3,203	2,026,027	2,396	2,115,374	–	2,115,374
Exchange adjustments	–	–	(728)	(85)	(964)	–	(1,777)	–	(1,777)
Charge for the year	286	11,825	13,602	1,008	499,995	712	527,428	7,330	534,758
Written back on disposals	–	–	(3,649)	(88)	(12,379)	(997)	(17,113)	–	(17,113)
At 31 August 2019	46,411	15,952	42,721	4,038	2,512,679	2,111	2,623,912	7,330	2,631,242
Net book value:									
At 31 August 2019	6,038	368,422	57,895	3,268	3,903,415	2,552	4,341,590	222,041	4,563,631
At 31 August 2018	6,324	32,021	45,786	2,425	2,206,223	1,171	2,293,950	–	2,293,950

(Expressed in Hong Kong dollars unless otherwise indicated)

11 Property, plant and equipment (continued)

The analysis of net book values of properties of the Group is as follows:

	2019 $'000	2018 $'000
In Hong Kong		
– short-term leases	**31,116**	12,938
– medium-term leases	**556,840**	16,511
– long-term leases	**2,507**	2,572
	590,463	32,021
Representing:		
– Leasehold land and building carried at cost	**368,422**	32,021
– Investment properties carried at cost	**222,041**	–
	590,463	32,021

At 31 August 2019 and 2018, the Group has certain agreements with third parties (the "Contract Parties") in which the Group would provide its network capacity to the Contract Parties in certain period, and in exchange, the Contract Parties would provide the Group the right to use the network capacity of the Contract Parties in the same period. The directors of the Group consider that since the arrangements involve exchange of a similar nature and value, the exchange is not recognised as a transaction which generates revenue, and accordingly, the network capacity of the Contract Parties under the agreements have not been recognised as an asset and no revenue or deferred revenue have been recognised in the financial statements of the Group.

12 Investments in subsidiaries

The following is a list of principal subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment	Particulars of issued and paid up share capital	Percentage of ownership interest held	Principal activities and place of operation
Advance Tech Developments Limited	British Virgin Islands ("BVI")	US$1	100	Inactive
Broadband Wireless Access Limited	Hong Kong	1 share	100	Inactive
COL LIMITED	Hong Kong	40,000 shares	100	Provision of data processing/ data centre services in Hong Kong
COLCON Limited	Hong Kong	1 share	100	Inactive
Concord Ideas Ltd.	BVI	US$10	100	Investment holding in Hong Kong

(Expressed in Hong Kong dollars unless otherwise indicated)

12 Investments in subsidiaries (continued)

Name of company	Place of incorporation/ establishment	Particulars of issued and paid up share capital	Percentage of ownership interest held	Principal activities and place of operation
COSMO TRUE LIMITED	BVI	US$1	100	Property investment in Hong Kong
CREDIBILITY HOLDINGS LIMITED	BVI	US$1	100	Inactive
Crown Master Enterprises Limited	Hong Kong	1 share	100	Investment holding in Hong Kong
DYNAMIC FUTURE INVESTMENTS LIMITED	Hong Kong	1 share	100	Property holding
ec Plus Limited	Hong Kong	1 share	100	Inactive
EC TELECOM LIMITED	Hong Kong	2 shares	100	Provision of telecommunication services in Hong Kong
Excel Profit Management Limited	BVI	US$1	100	Inactive
Gorgeous Investments Limited	Hong Kong	1 share	100	Inactive
Guangzhou Cangxun Electron Technology Service Limited Company*	PRC#	$1,000,000	100	Provision of telecommunication services in the PRC
Guangzhou City Telecom Customer Services Co. Ltd.*	PRC#	$8,000,000	100	Provision of administrative support services in the PRC
Guangzhou HK Enterprises Information Technology Limited*[1]	PRC#	US$200,000	100	Provision of system integration services in the PRC
HKBN Enterprise Solutions eBusiness Limited (formerly known as WTT eBusiness Limited)	Hong Kong	1 share	100	Provision of eBusiness services in Hong Kong
HKBN Enterprise Solutions HK Limited ("HKBNESHKL") (formerly known as WTT HK Limited)	Hong Kong	1,752,079,583 shares	100	Provision of telecommunication services in Hong Kong
HKBN Enterprise Solutions Limited	Hong Kong	10,000,000 shares	100	Provision of telecommunication services in Hong Kong

(Expressed in Hong Kong dollars unless otherwise indicated)

12 Investments in subsidiaries (continued)

Name of company	Place of incorporation/ establishment	Particulars of issued and paid up share capital	Percentage of ownership interest held	Principal activities and place of operation
HKBN Enterprise Solutions Net Limited (formerly known as WTT Net Limited)	Hong Kong	2 shares	100	Inactive
HKBN Enterprise Solutions Outsourcing Services Limited (formerly known as WTT Outsourcing Services Limited)	Hong Kong	1 share	100	Provision of outsourcing services in Hong Kong
HKBN Group Limited ("HKBNGL")	BVI	US$5,294	100	Investment holding in Hong Kong
HKBN International Limited	BVI	US$1	100	License holding in Taiwan
Hong Kong Broadband Network Limited ("HKBN")	Hong Kong	383,049 shares	100	Provision of fixed telecommunications network services and international telecommunications services in Hong Kong and product sales
I Consulting Group Limited ("ICG")[2]	Hong Kong	100 shares	100	Provision of cloud solutions services in Hong Kong
Jiuxin (Guangzhou) Electron Technology Service Limited Company*	PRC#	$1,300,000	100	Provision of telecommunication services in the PRC
Metropolitan Light Company Limited	Cayman Islands	US$1,000	100	Investment holding in Hong Kong
Metropolitan Light (HK) Company Limited	Hong Kong	400,000 shares	100	Investment holding in the PRC
Mirapoint Asia Limited	Hong Kong	1 share	100	Distribution of email and related products in Hong Kong
NetPro Services Limited	Hong Kong	1 share	100	Inactive
NEW FORCE CUSTOMER SERVICES LIMITED	Hong Kong	2 shares	100	Investment holding in the PRC

(Expressed in Hong Kong dollars unless otherwise indicated)

12 Investments in subsidiaries (continued)

Name of company	Place of incorporation/ establishment	Particulars of issued and paid up share capital	Percentage of ownership interest held	Principal activities and place of operation
NEW IMPACT CUSTOMER SERVICES LIMITED	Hong Kong	2 shares	100	Investment holding in the PRC
ONE.TEL LIMITED	Hong Kong	10,000 shares	100	Provision of telecommunication services in Hong Kong
ONETEL.NET LIMITED	Hong Kong	1,000 shares	100	Provision of telecommunication services in Hong Kong
PIHK Network Limited	Hong Kong	42,829,601 shares	100	Provision of telecommunication services in Hong Kong
Region Best Profits Limited	BVI	US$1	100	Inactive
SKY LEADER LIMITED	Hong Kong	2 shares	100	Provision of telecommunication services in Hong Kong
Super Advance Technology Limited	BVI	US$1	100	Inactive
THE I CONSULTING LIMITED	Hong Kong	1 share	100	Dormant
UTMOST POWER LIMITED	Hong Kong	1 share	100	Property holding
Wharf Col (Shanghai) Ltd.*	PRC#	US$700,000	100	Provision of data processing/ data centre services in the PRC
Wise Millennium Assets Limited+	BVI	US$1	100	Inactive
WTT Cayman Corp ("WTTC")[3]	Cayman Islands	US$1	100	Investment holding in Hong Kong
WTT Development Ltd ("WTTD")[4]	Cayman Islands	US$0.01	100	Investment holding in Hong Kong
WTT (Macau) Limited[5]	Macau	MOP$25,000	100	Inactive
WTT Global Limited^	Hong Kong	10,000 shares	100	Inactive
WTT Mobility Limited^	Hong Kong	10,000 shares	100	Inactive

(Expressed in Hong Kong dollars unless otherwise indicated)

12 Investments in subsidiaries (continued)

Name of company	Place of incorporation/ establishment	Particulars of issued and paid up share capital	Percentage of ownership interest held	Principal activities and place of operation
WTTO (Jiangmen) Information Processing Services Co.*	PRC#	$1,000,000	100	Provision of outsourcing services in the PRC
WTTO Information Processing Service Company Limited*	PRC#	$1,240,000	100	Provision of outsourcing services in the PRC
Y5Zone Limited	Hong Kong	2 shares	100	Provision of Wi-Fi connectivity in Hong Kong

* *The English names are translated for reference only. The official names of these entities are in Chinese.*

\+ *Under the striking-off process.*

^ *Under the de-registration process.*

\# *Wholly-owned foreign enterprise registered under the PRC law.*

1 *The company has been dissolved with effect from 27 August 2019.*

2 *The company has changed its company name to HKBN Enterprise Solutions Could Services Limited with effect from 30 September 2019.*

3 *The company has changed its company name to HKBN Enterprise Solutions Cayman Corp with effect from 2 September 2019.*

4 *The company has changed its company name to HKBN Enterprise Solutions Development Ltd with effect from 2 September 2019.*

5 *The company has been dissolved with effect from 11 September 2019.*

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Interest in joint ventures

(a) Details of the Group's interest in the joint ventures, which are accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation/ establishment	Particulars of issued and paid up capital	Percentage of ownership interest held by a subsidiary	Principal activities and place of operation
BROADBANDgo Company Limited ("BROADBANDgo")	Limited liability company	Hong Kong	100 shares	60	Provision of broadband and Wi-Fi services in Hong Kong
HomePlus (Hong Kong) Limited ("HomePlus")	Limited liability company	Hong Kong	100,000 shares	50	Provision of retail and telecommunication services in Hong Kong
Nova FinTech Limited ("Nova")	Limited liability company	Hong Kong	160,000 shares	37.5	Provision of financial technology services in Hong Kong
TGgo Company Limited ("TGgo")	Limited liability company	Hong Kong	100 shares	40	Provision of cloud computing services in Hong Kong

BROADBANDgo, TGgo, Home Plus and Nova are unlisted corporate entities whose quoted market prices are not available. In the opinion of the directors, these are arrangements whereby the Group and other parties contractually agree to share control of the arrangements, and have rights to the net assets of the arrangements. Accordingly, these investments have been accounted for as joint ventures.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Interest in joint ventures (Continued)

(b) Aggregate information of joint ventures that are not individually material:

	2019 $'000	2018 $'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**9,429**	8,095
Aggregate amounts of the Group's share of those joint ventures'		
– Loss for the year	**(276)**	(693)
– Other comprehensive income	**–**	–
– Total comprehensive income	**(276)**	(693)

14 Other non-current assets

Other non-current assets mainly comprise prepayments and deposits for purchase of property, plant and equipment. The amounts are neither past due nor impaired.

15 Inventories and customer acquisition and retention costs

(a) Inventories

Inventories in the consolidated statement of financial position comprise finished goods. The amount of inventories recognised as an expense and included in profit or loss represents carrying amount of inventories sold (see note 3(e)).

(Expressed in Hong Kong dollars unless otherwise indicated)

15 Inventories and customer acquisition and retention costs (Continued)

(b) Customer acquisition and retention costs

	$'000
Cost:	
At 1 September 2017 and 31 August 2018	–
Changes in accounting policies (note 1 (c)(ii))	433,755
At 1 September 2018	433,755
Acquisitions of subsidiaries (note 30)	173,166
Additions	231,902
At 31 August 2019	838,823
Accumulated amortisation:	
At 1 September, 31 August 2018 and 1 September 2018	–
Charge for the year	240,793
At 31 August 2019	240,793
Carrying amount:	$'000
At 31 August 2019	598,030
At 31 August 2018	–

Customer acquisition and retention costs capitalised as at 31 August 2019 relate to the (i) customer acquisition costs paid to talents or agents whose selling activities resulted in customers entering into contracts for the provision of telecommunications services which the contract periods are over 12 months at the reporting date and (ii) customer retention costs incurred in fulfilling a contract with a customer which the contract periods are over 12 months at the reporting date to generate or enhance resources of the Group that will be used in satisfying performance obligations in the future.

Customer acquisition costs and customer retention costs are recognised as part of "other operating expenses" in the consolidated income statement in the period in which revenue from the related contracts is recognised.

There was no impairment in relation to the customer acquisition and retention costs capitalised during the year.

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Contract assets and contract liabilities

(a) Contract assets

	Notes	**31 August 2019 $'000**	1 September 2018 $'000	31 August 2018 $'000
Arising from international telecommunications services	(ii), (iii)	**91,405**	26,570	–
Arising from product revenue bundled with telecommunication services	(ii), (iii)	**139,506**	124,379	–
Arising from system integration services	(ii), (iii)	**15,546**	–	–
		246,457	150,949	–
Represented by:				
Non-current portion		**4,740**	–	–
Current portion		**241,717**	150,949	–
		246,457	150,949	–
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade receivables, other receivables, deposits and prepayments"		**557,439**	247,210	

Notes:

(i) The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 September 2018.

(ii) Upon the adoption of HKFRS 9, no opening adjustment was made as at 1 September 2018 in respect of recognising additional ECLs on contract assets.

(iii) Upon the adoption of HKFRS 15, amounts previously included under "Other receivables, deposits and prepayments" (see note 17) for which the Group's entitlement to the consideration was conditional on transferring certain promised services, achieving certain milestones or satisfactory completion of verification and reconciliation works, were reclassified to contract assets (see note 1(c)(ii)).

Typical payment terms which impact on the amount of contract assets recognised are as follows:

– International telecommunications services
The Group provides international telecommunications services to telecommunications operators. The Group and certain telecommunications operators enter into contracts with minimum commitments on either transaction amount or unit of traffic to be processed and contract term would usually last for over three months. Such contracts involve large amount of transactions and both parties are required to verify and reconcile the transactions details received from counter party against their own records. Once the verification and reconciliation work have been completed, the Group will issue an invoice to the telecommunications operator. The Group's right to the consideration is generally unconditional upon the completion of verification and reconciliation work from both parties as well as the issuance of invoice.

16 Contract assets and contract liabilities (continued)

(a) Contract assets (continued)

– Sales of equipment and mobile handsets bundled with services
The Group offers packages to the customer which include the bundle sales of products and provision of services. In this situation, the customer pays to the Group in accordance with the predetermined payment schedule. If the performance obligations fulfilled by the Group exceed the total payments received to date, a contract asset is recognised. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional.

– System integration services
System integration services is one of the services to enterprise customers. The Group's project based system integration services include payment schedules which require stage payments over the project period once milestones are reached. This gives rise to contract assets when the revenue recognised on the project exceeds the amount of the payment made by customer.

All of the current contract assets are expected to be recovered within one year.

(b) Contract liabilities

	Notes	**31 August 2019 $'000**	1 September 2018 $'000	31 August 2018 $'000
Indefeasible right of use ("IRU") arrangement				
– Billing in advance of performance		**92,171**	–	–
Other telecommunications services				
– Billing in advance of performance	(ii)	**315,282**	178,024	–
		407,453	178,024	–
Represented by:				
– Non-current portion		**187,690**	79,371	–
– Current portion		**219,763**	98,653	–
		407,453	178,024	–

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance as at 1 September 2018.

(ii) Upon the adoption of HKFRS 15, amounts previously included under "deferred services revenue" were reclassified to contract liabilities (see note 1 (c)(ii)).

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

IRU arrangements

The Group received 100% of the contract value when they sign the IRU arrangement contract with customer. This consideration is recognised as contract liabilities upon receipt.

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Contract assets and contract liabilities (continued)

(b) Contract liabilities (continued)

Other telecommunications services – Billing in advance of performance

The Group's telecommunication services normally include payment schedules which require advance payments from customers for the services. This gives rises to contract liabilities until revenue recognised on the services are provided.

Movements in contract liabilities

	$'000
Balance at 1 September 2018	178,024
Acquisition of subsidiary	235,720
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	(3,744,156)
Decrease in contract liabilities as a result of billings in advance of IRU arrangements	(4,148)
Increase in contract liabilities as a result of billings in advance of the provision of other telecommunications services	3,742,013
Balance at 31 August 2019	407,453

The amount of billings in advance of performance and upfront installation fees received in advance expected to be recognised as income after more than one year is $187,690,000 (2018: $79,731,000 which were included under "deferred services revenue").

17 Trade receivables, other receivables, deposits and prepayments

	Notes	**31 August 2019 $'000**	**1 September 2018 $'000**	31 August 2018 $'000
Trade debtors, net of loss allowances	(i)	**557,439**	**247,210**	247,210
Other receivables, deposits and prepayments	(ii)	**240,894**	**141,697**	292,646
		798,333	**388,907**	539,856

Notes:

(i) Upon the adoption of HKFRS 9, no opening adjustment as at 1 September 2018 was made in respect of recognising additional ECLs on trade debtors (see note 1(c)(i)).

(ii) Upon the adoption of HKFRS 15, certain amounts from customers for international telecommunications services, product revenue bundled with telecommunication services and system integration services were reclassified to contract assets and disclosed in note 16(a) (see note 1(c)(i)).

The amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as expense after more than one year is $23,528,000 (2018: $18,002,000). All of the remaining other receivables, deposits and prepayments are expected to be recovered or recognised as expense within one year.

The amount of the interest-rate swap included in other receivables, deposits and prepayment is $ Nil (2018: $2,073,000).

Ageing analysis

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:

	2019 $'000	2018 $'000
Within 30 days	**217,558**	117,261
31 to 60 days	**113,655**	52,844
61 to 90 days	**59,638**	25,968
Over 90 days	**166,588**	51,137
	557,439	247,210

The majority of the Group's trade receivables is due within 30 days from the date of billing. Further details on the Group's credit policy are set out in note 31(a).

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2019 $'000	2018 $'000
Cash at bank and in hand	**662,816**	373,293

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2019 $'000	2018 *(Note)* $'000
Profit before taxation		**309,362**	489,268
Adjustments for:			
Amortisation of intangible assets	10	**347,962**	172,576
Depreciation	3(b)	**534,758**	425,258
Amortisation of obligations under granting of rights	3(a)	**(9,024)**	(9,024)
Amortisation of customer acquisition and retention costs	3(b)	**240,793**	–
Interest income	3(a)	**(4,083)**	(1,641)
Finance costs	3(d)	**259,271**	117,288
Loss/(gain) on disposal of property, plant and equipment, net	3(b)	**119**	(203)
Change in fair value of contingent consideration	3(a)	**1,542**	437
Foreign exchange gain		**(4,134)**	(3,649)
Share of losses of joint ventures	13(b)	**276**	693
Equity-settled share-based payment expenses	3(c)	**3,099**	8,621
Changes in working capital:			
(Increase)/decrease in other non-current assets		**(1,187)**	6,720
Decrease/(increase) in inventories		**12,962**	(20,880)
Increase in trade receivables		**(2,922)**	(38,507)
Increase in other receivables, deposits and prepayments		**(45,334)**	(21,855)
Increase in customer acquisition and retention costs		**(231,901)**	–
Increase in contract assets		**(24,938)**	–
(Increase)/decrease in amounts due from joint ventures		**(6,549)**	700
Decrease in amount due to joint ventures		**(50)**	–
Increase in trade payables		**151,168**	37,610
(Decrease)/increase in other payables and accrued charges		**(55,727)**	15,739
Increase in deposits received		**398**	10,405
Decrease in contract liabilities		**(6,292)**	–
Increase in deferred services revenue		**–**	3,215
Cash generated from operations		**1,469,569**	1,192,771

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 1(c).*

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Cash and cash equivalents (continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as financing activities.

	Interest-rate swap (included in other receivables or other payables) (Note 17 and 19) $'000	Bank loans (Note 20) $'000	Senior notes (Note 21) $'000	Accrued borrowing costs(*) $'000	Total $'000
At 1 September 2018	(12,024)	3,873,716	–	–	3,861,692
Changes from financing cash flows:					
Proceeds from bank loans, net of transaction costs	–	974,365	–	–	974,365
Repayment of bank loans	–	(400,000)	–	–	(400,000)
Transaction costs for bank loans paid	–	(484)	–	–	(484)
Interest paid	(8,850)	–	–	(271,551)	(280,401)
Total changes from financing cash flows	(20,874)	4,447,597	–	(271,551)	4,155,172
Changes in fair value	12,088	–	–	–	12,088
Other changes:					
Interest expenses	8,850	–	–	225,433	234,283
Finance cost paid	–	6,656	5,944	–	12,600
Acquisition of subsidiaries (note 30)	–	–	5,163,193	127,344	5,290,537
At 31 August 2019	64	4,454,253	5,169,137	81,226	9,704,680

(*) Accrued borrowing costs are included in "Other payables and accrued changes – current portion" in the consolidated statement of financial position.

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Cash and cash equivalents (continued)

(c) Reconciliation of liabilities arising from financing activities: (continued)

	Interest-rate swap (included in other receivables or other payables) (Note 17 and 19) $'000	Bank loans (Note 20) $'000	Senior notes (Note 21) $'000	Accrued borrowing costs(*) $'000	Total $'000
At 1 September 2017	46,507	3,831,332	–	–	3,877,839
Changes from financing cash flows:					
Repayment of bank loans	–	(2,792)	–	–	(2,792)
Interest paid	(6,833)	(96,743)	–	–	(103,576)
Transaction costs for bank loans paid	–	(29,859)	–	–	(29,859)
Total changes from financing cash flows	39,674	3,701,938	–	–	3,741,612
Changes in fair value	(58,531)	–	–	–	(58,531)
Other changes:					
Interest expenses	6,833	119,711	–	–	126,544
Origination fee for banking facility expired	–	49,275	–	–	49,275
Acquisition of subsidiaries (note 30)	–	2,792	–	–	2,792
At 31 August 2018	(12,024)	3,873,716	–	–	3,861,692

(*) Accrued borrowing costs are included in "Other payables and accrued changes – current portion" in the consolidated statement of financial position.

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Trade payables, other payables and accrued charges

	2019 $'000	2018 $'000
Trade payables	**365,976**	138,918
Other payables and accrued charges		
– Current portion	**907,317**	461,373
– Long-term portion	**143,600**	201,266
	1,416,893	801,557

All trade payables, other payables and accrued charges are expected to be settled within one year, except other payables and accrued charges of $143,600,000 (2018: $201,266,000) are expected to be settled after more than one year and are classified as non-current liabilities.

The amount of the interest-rate swap included in other payables and accrued charges is $64,000 (2018: $Nil).

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

	2019 $'000	2018 $'000
Within 30 days	**124,247**	46,123
31 to 60 days	**46,783**	9,786
61 to 90 days	**35,734**	31,038
Over 90 days	**159,212**	51,971
	365,976	138,918

In 2015, the Group entered into an interest-rate swap with an notional amount of $2,635,000,000 and with a maturity date on 23 August 2018, to hedge the floating interest rate arisen from the bank loans (see note 20).

In 2017, the Group entered into a new interest-rate swap with effective date on 31 August 2019, to hedge the floating interest rate after the maturity of the current interest-rate swap. The new interest-rate swap has a notional amount of $2,635,000,000 and with a maturity date on 29 May 2020.

Under these arrangements, the Group pays a fixed rate interest on the notional amount on a quarterly basis, net of a floating rate interest at 3-month Hong Kong Inter-bank Offered Rate ("HIBOR") in the corresponding period.

These swaps are recognised initially at fair value and remeasured at the end of each reporting period. These interest-rate swaps do 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

20 Bank loans

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

	2019 $'000	2018 $'000
Non-current liabilities		
Long-term bank loans	**4,454,253**	3,873,716

(b) As at 31 August 2019, the bank loans were repayable as follows:

	2019 $'000	2018 $'000
Bank loans (unsecured)		
Within 1 year on demand	**–**	–
After 1 year but within 2 years	**–**	–
After 2 years but within 5 years	**4,454,253**	3,873,716
	4,454,253	3,873,716

(i) On 21 November 2016, the Group has 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 HIBOR plus a margin of 1.35% per annum payable quarterly. At 25 May 2018, the expiry date of the term and revolving credit facilities was extended from 28 November 2021 to 23 May 2023 ("The New Bank Loan"). The New Bank Loan is interest-bearing at HIBOR plus a margin of 1.05% per annum payable quarterly.

Upon renewal, the original term and revolving credit facilities agreement were deemed extinguished and the unamortised transaction costs of $49,275,000 were recognised as finance costs (see note 3(d)) in the consolidated income statement for the year ended 31 August 2018. The New Bank Loan is unsecured and covered by a cross guarantee arrangement issued by the Company, MLCL, HKBNGL, HKBN, WTTD, WTTC, HKBNESHKL and COL Limited, and repayable in full upon maturity on 25 May 2023.

(Expressed in Hong Kong dollars unless otherwise indicated)

20 Bank loans (continued)

(b) As at 31 August 2019, the bank loans were repayable as follows: (continued)

(ii) 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 31 August 2019 is 3.25% per annum (2018: 3.21%) and the amortised cost of the bank loans is $4,454,253,000 (2018: $3,873,716,000).

21 Senior notes

On 21 November 2017, WTT Investment Ltd (the “Predecessor Issuer”) issued senior notes with a nominal value of US$670,000,000 (equivalent to $5,232,091,000) that will mature on 21 November 2022. The notes were denominated and settled in the United States Dollar, and bore coupon at 5.5% per annum payable semi-annually on 21 May and 21 November in each year commencing on 21 May 2018. The senior notes were recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, the senior notes were stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in profit or loss over the period of the senior notes, together with any interest and fees payable, using the effective interest method.

The effective interest rate for the senior notes for the year ended 31 August 2019 is 5.9% per annum.

On 28 May 2019, MLCL assumed the obligations of the Predecessor Issuer.

The senior notes are guaranteed by the Group’s subsidiaries.

22 Amounts due from/(to) joint ventures

The amounts due from/(to) joint ventures are unsecured, interest free and recoverable/(repayable) on demand.

23 Share-based transactions

(a) 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 shares 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 dates to be $8.50.

On 20 November 2015, 158,000 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, 2,082,000 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 at the grant date to be $8.10.

On 24 January 2017, 258,000 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 $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 at 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 $8.21.

Equity-settled share-based payment expenses of $3,099,000 (2018: $8,621,000) were recognised as Talent costs in the consolidated income statement (see note 3(c)) for the year ended 31 August 2019 and the remaining expenses related to the RSUs are to be recognised in the years ending 31 August 2020, 2021 and 2022 based on the respective vesting periods.

23 Share-based transactions (continued)

(a) Equity-settled share-based transactions (continued)

(i) The major terms and conditions of the grants are as follows:

	Number of instruments '000	Vesting conditions
RSUs granted to directors:		
–on 29 June 2015	397	notes (i) and (ix)
–on 20 June 2016	329	notes (ii) and (ix)
RSUs granted to Talents:		
–on 29 June 2015	2,326	notes (i) and (ix)
–on 18 August 2015	133	notes (ii) and (ix)
–on 20 November 2015	158	notes (v) and (ix)
–on 20 June 2016	1,753	notes (iv) and (ix)
–on 24 January 2017	258	notes (v) and (ix)
–on 20 July 2017	253	notes (vi) and (ix)
–on 30 January 2019	329	notes (vii) and (ix)
–on 26 February 2019	31	notes (viii) and (ix)
Total RSUs granted	5,967	

Notes:

(i) The RSUs granted have a vesting period of three years as follows:
- *25% of RSUs shall vest on 29 June 2016;*
- *25% of RSUs shall vest on 29 June 2017; and*
- *50% of RSUs shall vest on 29 June 2018.*

(ii) The RSUs granted have a vesting period of three years as follows:
- *25% of RSUs shall vest on 18 August 2016;*
- *25% of RSUs shall vest on 18 August 2017; and*
- *50% of RSUs shall vest on 18 August 2018.*

(iii) The RSUs granted have a vesting period of three years as follows:
- *25% of RSUs shall vest on 20 November 2016;*
- *25% of RSUs shall vest on 20 November 2017; and*
- *50% of RSUs shall vest on 20 November 2018.*

(iv) The RSUs granted have a vesting period of three years as follows:
- *25% of RSUs shall vest on 20 June 2017;*
- *25% of RSUs shall vest on 20 June 2018; and*
- *50% of RSUs shall vest on 20 June 2019.*

(v) The RSUs granted have a vesting period of three years as follows:
- *25% of RSUs shall vest on 24 January 2018;*
- *25% of RSUs shall vest on 24 January 2019; and*
- *50% of RSUs shall vest on 24 January 2020.*

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Share-based transactions (continued)

(a) Equity-settled share-based transactions (continued)

(vi) The RSUs granted have a vesting period of three years as follows:
- *25% of RSUs shall vest on 20 July 2018;*
- *25% of RSUs shall vest on 20 July 2019; and*
- *50% of RSUs shall vest on 20 July 2020.*

(vii) The RSUs granted have a vesting period of three years as follows:
- *25% of RSUs shall vest on 30 January 2020;*
- *25% of RSUs shall vest on 30 January 2021; and*
- *50% of RSUs shall vest on 30 January 2022.*

(viii) The RSUs granted have a vesting period of three years as follows:
- *25% of RSUs shall vest on 26 February 2020;*
- *25% of RSUs shall vest on 26 February 2021; and*
- *50% of RSUs shall vest on 26 February 2022.*

(ix) Directors and Talents who leave the Group prior to full vesting would forfeit their right to any unvested RSUs.

(ii) The movement of the RSUs is as follows:

	Number of RSUs	
	2019	2018
	'000	'000
Outstanding at the beginning of the year	**1,200**	3,136
Granted during the year	**361**	–
Vested during the year	**(922)**	(1,751)
Forfeited during the year	**(122)**	(185)
Outstanding at the end of the year	**517**	1,200

The fair value of services received in return for RSUs granted is measured by reference to the fair value of RSUs granted. The estimate of the fair value of the RSUs granted is measured based on a binomial lattice model.

The expected dividends during the vesting period have been taken into account when measuring the fair value of the RSUs. The dividends paid from the Company's ordinary shares underlying the RSUs would be accrued and paid to the RSUs plan participants upon vested.

RSUs were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the RSUs granted.

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Share-based transactions (continued)

(b) Cash-settled share-based transaction

On 24 January 2017, 142,000 RSUs were granted to Talents of the Group in the PRC which are to be settled in cash. The directors estimated the weighted average fair value of each RSU at 31 August 2019 to be $10.40 (2018: $8.48).

On 26 February 2019, 95,000 RSUs were granted to Talents of the Group in the PRC which are to be settled in cash. The directors estimated the weighted average fair value of each RSU at 31 August 2019 to be $9.38.

The amount payable to the Talents in respect of those RSUs is accounted for under cash-settled share-based payment in accordance with the accounting policy set out in note 1(s)(iv)(b).

Cash-settled share-based payment expenses of $797,000 (2018: $1,290,000) were recognised as Talent costs in the consolidated income statement (see note 3(c)) for the year ended 31 August 2019 and the remaining expenses related to the RSUs are to be recognised in the years ending 31 August 2020, 2021 and 2022 based on the respective vesting periods.

The liability is remeasured at the end of each reporting period and at settlement date. Any changes in the fair value of the liability are recognised as Talent costs in profit or loss.

24 Current taxation in the consolidated statement of financial position

Current taxation in the consolidated statement of financial position represents:

	2019 $'000	2018 $'000
Provision for Hong Kong Profits Tax for the year	**146,864**	104,960
Balance of Profits Tax provision relating to prior years	**8,922**	2,632
	155,786	107,592
Provision for tax outside Hong Kong	**2,694**	1,818
	158,480	109,410

(Expressed in Hong Kong dollars unless otherwise indicated)

25 Deferred tax in the consolidated statement of financial position

(a) Deferred tax liabilities and assets recognised:

The components of deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation $'000	Amortisation of intangible assets $'000	Amortisation of obligations under granting of rights $'000	Contract Costs $'000	Credit loss allowance $'000	Others $'000	Total $'000
Deferred tax arising from:							
At 1 September 2017	(224,905)	(207,291)	7,073	–	–	1,505	(423,618)
Acquisition of subsidiaries, as restated (note 30)	–	(2,220)	–	–	–	–	(2,220)
Credited/(charged) to profit or loss	394	20,164	(1,489)	–	–	(1,449)	17,620
At 31 August 2018, as restated	(224,511)	(189,347)	5,584	–	–	56	(408,218)
Impact on initial application of HKFRS 15	–	–	–	(65,499)	–	–	(65,499)
At 1 September 2018	(224,511)	(189,347)	5,584	(65,499)	–	56	(473,717)
Acquisition of subsidiaries (note 30)	(140,109)	(582,949)	–	–	7,545	–	(715,513)
Credited/(charged) to profit or loss	4,462	45,599	(1,489)	4,013	5,090	115	57,790
At 31 August 2019	(360,158)	(726,697)	4,095	(61,486)	12,635	171	(1,131,440)

(b) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(t), the Group had not recognised deferred tax assets in respect of cumulative tax losses of $2,686,931,000 (2018: $2,808,203,000) as it was not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses did not expire under current tax legislation.

At 31 August 2019, temporary differences relating to the undistributed profits of the Group's PRC subsidiaries amounted to RMB119,364,000 (equivalent to $130,894,000) (2018: RMB105,527,000 (equivalent to $120,914,000)). Deferred tax liabilities amounted to 10% (or 5% if tax treaty is available) of the undistributed profits have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of the subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(Expressed in Hong Kong dollars unless otherwise indicated)

26 Obligations under granting of rights

	2019 $'000	2018 $'000
At the beginning of the year	**33,843**	42,867
Amortisation for the year (note 3(a))	**(9,024)**	(9,024)
At the end of the year	**24,819**	33,843
Less: Current portion	**(9,024)**	(9,024)
Non-current portion	**15,795**	24,819

As part and parcel of the business combination on 30 May 2012, the Group granted Hong Kong Television Network Limited ("HKTV") the telecommunication business rights to use of certain telecommunication services from the Group for a term of 10 years from 30 May 2012 to 30 May 2022. The Group recognised the obligations in connection with the granting of such rights at fair value at the date of business combination. The amortisation of the obligations is charged to profit or loss on a straight-line basis over 10 years.

27 Contingent consideration

(i) On 31 March 2016, the Group acquired the entire issued share capital of Concord Ideas Ltd. and Simple Click Investments Limited and the contingent consideration in respect of the acquisition of Concord Ideas Ltd. and Simple Click Investments Limited was measured at fair value at acquisition date ("Concord Acquisition"). The fair value of the contingent consideration was determined by the discounted cash flow valuation method. The expected payment was determined by considering the forecast amount of cash rebates to New World Telephone Holdings Limited for services provided by the Group to New World Development Company Limited and Chow Tai Fook Enterprises Limited and their subsidiaries and related parties based on 50% of settled invoices up to $50,000,000 in aggregate. The Concord Acquisition contingent consideration has been fully settled during the year.

27 Contingent consideration (continued)

(ii) On 30 May 2018, the Group acquired the entire issued share capital of I Consulting Group Limited and its' subsidiary ("ICG Acquisition") and the contingent consideration in respect of the acquisition of ICG was measured at fair value at acquisition date and was account for as part of the consideration transferred in the business combination as set out in note 30(b).

As at 31 August 2018, the fair values of acquired assets, liabilities and goodwill for of I Consulting Group Limited and its subsidiary ("ICG Group") have been determined on a provisional basis, pending finalisation of the post-acquisition review of the fair values of the acquired net assets.

During the year ended 31 August 2019, the fair values of the acquired assets and liabilities disclosed as provisional at 31 August 2018 in respect of ICG Group were finalised giving rise to a decrease in goodwill of $3,511,000, intangible assets of $1,289,000, deferred tax liabilities of $213,000 and contingent consideration of $4,587,000, respectively.

The fair value of the contingent consideration was determined by the discounted cash flow valuation method. The expected payment was determined by considering the adjusted fund flow of ICG Group for the period from 31 May 2018 to 31 March 2023 up to $200,000,000 in aggregate. The directors estimated the fair value of the contingent consideration as at 31 August 2019 to be $29,649,000 (2018 (restated): $28,236,000).

(iii) The contingent consideration payable is classified as a financial liability and its fair value is re-measured at the end of each reporting period. Any changes in fair value are recognised in profit or loss.

The contingent consideration payable within one year and over one year from 31 August 2019 amounted to $1,371,000 (2018 (restated): $11,471,000) and $28,278,000 (2018 (restated): $28,236,000), respectively. During the year, change in fair value of $1,542,000 (2018: $437,000) was recognised in profit or loss during the year ended 31 August 2019.

The fair value as at 31 August 2019 is determined considering the expected payment and discounted to present value using the corresponding discount rate of the consideration of ICG Acquisition of 5.0% (2018 (restated): 5.0%).

(Expressed in Hong Kong dollars unless otherwise indicated)

28 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital $'000	Share premium $'000	Vendor Loan Notes $'000	Capital reserve $'000	Retained profits $'000	Total $'000
Balance at 1 September 2017		101	105,880	–	27,192	993,503	1,126,676
Changes in equity for the year ended 31 August 2018:							
Profit and total comprehensive income for the year		–	–	–	–	490,884	490,884
Dividend approved in respect of the previous year	28(b)(ii)	–	(105,880)	–	–	(125,423)	(231,303)
Dividend declared in respect of the current year	28(b)(i)	–	–	–	–	(261,473)	(261,473)
Equity-settled share-based transactions	23(a)	–	–	–	8,621	–	8,621
Balance at 31 August 2018 and 1 September 2018		101	–	–	35,813	1,097,491	1,133,405
Changes in equity for the year ended 31 August 2019:							
Issue of ordinary shares	28(c)	31	4,295,264	–	–	–	4,295,295
Issue of Vendor Loan Notes	29	–	–	2,349,204	–	–	2,349,204
Profit and total comprehensive income for the year		–	–	–	–	745,954	745,954
Dividend approved to equity shareholders of the Company in respect of the previous year	28(b)(ii)	–	–	–	–	(301,700)	(301,700)
Dividend declared to equity shareholders of the Company in respect of the current year	28(b)(i)	–	(445,944)	–	–	–	(445,944)
Distribution to holders of Vendor Loan Notes		–	(56,890)	–	–	–	(56,980)
Equity-settled share-based transactions	23(a)	–	–	–	3,099	–	3,099
Balance at 31 August 2019		132	3,792,430	2,349,204	38,912	1,541,745	7,722,423

(Expressed in Hong Kong dollars unless otherwise indicated)

28 Capital, reserves and dividends (continued)

(b) Dividends

(i) Dividend payable to equity shareholders of the Company attributable to the year

	2019 $'000	2018 $'000
Interim dividend declared and paid of 34 cents per ordinary share (2018: 26 cents per ordinary share)	**445,944**	261,473
Final dividend proposed after the end of the reporting period of 36 cents per ordinary share (2018: 30 cents per ordinary share)	**472,176**	301,700
	918,120	563,173

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

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

	2019 $'000	2018 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 30 cents per ordinary share (2018: 23 cents per ordinary share)	**301,700**	231,303

28 Capital, reserves and dividends (continued)

(c) Share capital

	No. of shares	$'000
Authorised:		
At 1 September 2017, 31 August 2018, 1 September 2018 and 31 August 2019	3,800,000,000	380
Ordinary shares, issued and fully paid:		
At 1 September 2017, 31 August 2018, 1 September 2018	1,005,666,000	101
Issue of new shares (note)	305,933,000	31
At 31 August 2019	1,311,599,000	132

Note: On 30 April 2019, the Group completed the acquisition of 100% equity interest of WTT Group (note 30). Part of the consideration was settled by the allotment and issue of 305,932,690 shares of $0.0001 each of the Company. The shares were issued on 30 April 2019 and the aggregate fair value of the shares issued, based on the quoted price of the shares on that date, was amounted to $4,295,295,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34(2) of the Companies Law (2013 Revision) of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(ii) Capital reserve

The capital reserve represents the portion of the grant date fair value of RSUs granted to the directors and Talents of the Group in Hong Kong that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(s)(iv)(a).

(iii) Other reserve

As part of the group reorganisation, the entire issued share capital of MLCL was transferred to the Company in consideration for an issue of the Company share ("Share Transfer"). Upon completion of the Share Transfer, the excess amount between the consideration and share capital and share premium of MLCL was recorded in the other reserve.

(Expressed in Hong Kong dollars unless otherwise indicated)

28 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a gearing ratio. For this purpose, gearing ratio is calculated as gross debt divided by total equity. Gross debt comprises the principal amount of outstanding borrowings.

The gearing ratio at 31 August 2019 and 2018 was as follows:

	Note	2019 $'000	2018 $'000
Bank loans (principal amount)	20	**4,480,000**	3,900,000
Senior notes	21	**5,232,091**	–
Gross debt		**9,712,091**	3,900,000
Total equity		**7,456,561**	1,036,912
Gearing ratio		**130%**	376%

Neither the Company nor any of its subsidiaries were subject to externally imposed capital requirements during the years presented.

(Expressed in Hong Kong dollars unless otherwise indicated)

29 Vendor Loan Notes

On 30 April 2019, the Company issued the Vendor Loan Notes with a nominal amount of $1,940,937,656 as part of the consideration of the WTT Acquisition (see note 30). 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. Therefore, the Vendor Loan Notes are classified as equity instruments and recorded in equity in the consolidated statement of financial position.

30 Business combination and acquisition of a subsidiary

a. Business combination during the year ended 31 August 2019

Pursuant to the merger agreement dated 7 August 2018, MLCL, acquired 100% equity interests in WTT Holding Corp, a company incorporated in the Cayman Islands, and its subsidiaries (together referred as "WTT Group") from TPG Wireman and Twin Holding (the "WTT Acquisition"). The consideration of the WTT Acquisition was settled by (i) allotment and issuance of 305,932,690 of the Company's shares and (ii) issuance of the Vendor Loan Notes in the principal amount of $1,940,937,656.

WTT Group is principally engaged in the provision of telecommunication services to business communications market primarily in Hong Kong through its wholly-owned subsidiary in Hong Kong, namely HKBN Enterprise Solutions HK Limited ("HKBNESHKL") (formerly known as WTT HK Limited). HKBNESHKL is an enterprise-focused fixed telecommunication services operator with significant fixed line infrastructure in Hong Kong, and over 20 years' track record of serving local and international businesses. The WTT Acquisition was completed on 30 April 2019.

	$'000
Consideration transferred:	
Allotment and issuance of new ordinary shares of the Company (note (a))	4,295,295
Issuance of the Vendor Loan Notes (note (b))	2,349,204
Aggregate consideration	6,644,499
Add: Fair value of net liabilities acquired	342,427
Goodwill on the WTT Acquisition	6,986,926

Note (a): The fair value of the ordinary shares of the Company issued as consideration is determined by reference to the quoted market price of $14.04 per each of the ordinary shares of the Company at the date of completion of the WTT Acquisition.

Note (b): The Vendor Loan Notes may be converted into new ordinary shares to be issued by the Company at initial conversion price of $11.60 per share pursuant to the terms and conditions of the Vendor Loan Notes. At the date of completion of the WTT Acquisition based on the initial conversion price, the Vendor Loan Notes are convertible to 167,322,212 ordinary shares of the Company. Therefore, the fair value of the Vendor Loan Notes has been determined by reference to the quoted market price of $14.04 per each of the ordinary shares of the Company at the date of completion of the WTT Acquisition.

(Expressed in Hong Kong dollars unless otherwise indicated)

30 Business combination and acquisition of a subsidiary (continued)

a. Business combination during the year ended 31 August 2019 (continued)

The goodwill reflects synergies expected from leveraging network of the WTT Group and expected efficiencies from the combined company that will make the combined business a more efficient and effective competitor in Hong Kong. None of the goodwill is expected to be deductible for tax purposes.

The WTT Acquisition had the following effect on the Group's assets and liabilities on 30 April 2019, the completion date of the WTT Acquisition:

	$'000
Intangible assets (note 10)	3,533,017
Property, plant and equipment (note 11)	1,834,490
Customer acquisition and retention costs (note 15)	173,166
Other non-current assets	23,668
Inventory	9,425
Trade receivables	306,675
Other receivables, deposits and prepayments	88,625
Contract assets	70,571
Cash and cash equivalents	355,172
Trade payables	(75,890)
Other payables and accrued charges – current portion	(494,994)
Contract liabilities – current portion	(136,528)
Deposits received	(2,703)
Tax payable	(13,835)
Contract liabilities – non-current portion	(99,192)
Deferred tax liabilities (note 25)	(714,499)
Provision for reinstatement costs	(36,402)
Senior notes (note 18(c))	(5,163,193)
Fair value of net liabilities acquired	(342,427)
Goodwill (note 9)	6,986,926
Total consideration	6,644,499
Cash consideration paid	–
Cash and cash equivalents acquired	(355,172)
Net cash inflow in respect of the WTT Acquisition during the year ended 31 August 2019	(355,172)

(Expressed in Hong Kong dollars unless otherwise indicated)

30 Business combination and acquisition of a subsidiary (continued)

a. Business combination during the year ended 31 August 2019 (continued)

Acquisition-related costs

Acquisition-related costs of approximately $75,608,000 and $16,181,000 were included in other operating expenses in the consolidated income statement for the years ended 31 August 2019 and 2018.

Revenue and profit contribution

The revenue and loss after taxation of $708,411,000 and $15,358,000 respectively included in the consolidated income statement were contributed by WTT Group from the date of the WTT Acquisition to 31 August 2019.

No separate sets of financial information for WTT Group were prepared for the period from 1 September 2018 to the date of the WTT Acquisition. As a result, it is impracticable for the Group to disclose the amounts of revenue and profit or loss after taxation of WTT Group as if the acquisition date for the business combination that occurred during the year had been as of 1 September 2018.

b. Business combination during the year ended 31 August 2018

On 30 May 2018, the Group acquired the entire shares of I Consulting Group Limited ("ICG") and its subsidiary ("ICG Acquisition"). ICG is primarily engaged in the provision of telecommunication services in Hong Kong.

The Group made an initial payment for acquisition totaling approximately $10,000,000 in cash and may have to make additional payments totaling up to approximately to $200,000,000 in cash if the businesses of ICG achieve certain financial milestones within a specified period. The fair value of this contingent consideration is estimated at approximately $29,649,000 (2018 (restated): $28,236,000) and has been included in the purchase price of ICG.

During the year ended 31 August 2018, the valuations have not been completed and the respective fair values of the identifiable net assets and goodwill were determined provisionally.

During the year ended 31 August 2019, the accounting for the ICG Acquisition was completed.

(Expressed in Hong Kong dollars unless otherwise indicated)

30 Business combination and acquisition of a subsidiary (continued)

b. Business combination during the year ended 31 August 2018 (continued)

The fair values of the assets and liabilities of ICG recognised at the acquisition date upon completion of the purchase price allocation are as follows:

	$'000 (Restated)
Intangible assets (note 10)	13,457
Property, plant and equipment (note 11)	235
Trade receivables	3,536
Other receivables, deposits and prepayments	2,173
Tax recoverable	222
Cash and cash equivalents	499
Trade payables	(3,649)
Other payables, accrued charges, deposits received and deferred services revenue	(2,649)
Bank loans (note 18(c))	(2,792)
Deferred tax liabilities (note 25)	(2,220)
Fair value of net assets acquired	8,812
Goodwill (note 9)	29,424
Total consideration	38,236
Cash consideration	10,000
Contingent consideration (note 27)	28,236
Total consideration	38,236
Cash consideration paid	10,000
Cash and cash equivalents acquired	(499)
Net cash outflow in respect of the acquisition during the year ended 31 August 2018	9,501

Compared with the provisional purchase price allocation disclosed in the Group's consolidated financial statements as of and for the year ended 31 August 2018, the following items were restated:

	As originally stated $'000	As restated $'000	Change $'000
Goodwill	32,935	29,424	(3,511)
Intangible assets	14,746	13,457	(1,289)
Deferred tax liabilities	(2,433)	(2,220)	213
Contingent consideration	(32,823)	(28,236)	4,587

The respective profit or loss impact from the acquisition date to 31 August 2018 arising from the above restatement was not material.

30 Business combination and acquisition of a subsidiary (continued)

b. Business combination during the year ended 31 August 2018 (continued)

The goodwill is attributable mainly to the skills and technical talent of ICG's work force and the synergies expected to be achieved from integrating ICG into the Group's existing telecommunication business. None of the goodwill recognised is expected to be deductible for tax purpose.

The revenue and loss after taxation of $10,518,000 and $3,229,000 respectively included in the consolidated financial statements were contributed by ICG from the date of acquisition to 31 August 2018.

No separate sets of financial information for ICG was prepared for the period from 1 September 2017 to the date of the acquisition. As a result, it is impracticable for the Group to disclose the amount of revenue and profit after taxation of ICG as if the acquisition date for the business combination that occurred during the year had been as of 1 September 2017.

c. Acquisition of a subsidiary during the year ended 31 August 2019

On 26 September 2018 ("CTL Acquisition date"), HKBNGL acquired the entire interest of Cosmo True Limited ("CTL") which is principally engaged in property investment in Hong Kong at a cash consideration of $329,219,000 ("CTL Acquisition").

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 CTL Acquisition date.

	$'000
Cash consideration	329,219
Identifiable assets acquired and liabilities assumed:	
Property, plant and equipment (note 11)	329,295
Prepayments, deposits and other receivables	439
Trade receivables	631
Other payables and accruals	(132)
Deferred tax liabilities (note 25)	(1,014)
Total identifiable net assets	329,219
An analysis of net cash outflow in respect of CTL Acquisition is as follows:	
Total consideration	329,219
Deposits paid as at 31 August 2018	(32,829)
Net cash outflow in respect of CTL Acquisition for the year ended 31 August 2019	296,390

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with sound credit rating, for which the Group considers to have low credit risk.

Except for the financial guarantees given by the Group as set out in note 33, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 33.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Concentrations of credit risk with trade receivables and contract assets are limited due to Group's customer being large and unrelated.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days from the date of billing. Subscribers with receivables that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Trade receivables and contract assets (continued)

The following table provides information about the group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 August 2019:

	Expected loss rate %	Gross carrying amount $'000	Loss allowance $'000
Current (not past due)	1.3	470,014	5,999
Less than 30 days past due	6.5	121,492	7,837
31 to 60 days past due	12.0	67,740	8,102
Over 60 days past due	28.6	233,293	66,705
		892,539	88,643

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under HKAS 39

Prior to 1 September 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(k)(i) – policy applicable prior to 1 September 2018). At 31 August 2018, trade receivables of $24,939,000 was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2018 $'000
Neither past due nor impaired	117,261
Less than 30 days past due	52,844
31 to 60 days past due	25,968
Over 60 days past due	51,137
	129,949
	247,210

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Trade receivables and contract assets (continued)

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	2019 **$'000**	2018 $'000
Balance at 31 August under HKAS 39 and 1 September upon the initial application of HKFRS 9 (note)	**24,939**	20,480
Through acquisition of subsidiaries	**44,975**	–
Amounts written off during the year	**(34,030)**	(35,234)
Impairment losses recognised during the year	**52,759**	39,693
Balance at 31 August	**88,643**	24,939

Note: Upon the adoption of HKFRS 9, no opening adjustment as at 1 September 2018 was made in respect of recognising additional ECLs on trade receivables and contract assets (see note 1(c)(i)).

(b) Liquidity risk

The Group has a cash management policy, which includes the short term investment of cash surpluses and the raising of loans and other borrowings to cover expected cash demands. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group is required to pay.

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk (continued)

	2019 Contractual undiscounted cash outflow			
	Within 1 year or on demand $'000	More than 1 year $'000	Total $'000	Carrying amount at 31 August $'000
Trade payables	365,976	–	365,976	365,976
Contract liabilities	219,763	187,690	407,453	407,453
Other payables and accrued charges	907,317	143,600	1,050,917	1,050,917
Deposits received	72,443	–	72,443	72,443
Amounts due to joint ventures	10,750	–	10,750	10,750
Contingent consideration	1,371	28,278	29,649	29,649
Bank loans	139,202	4,867,621	5,006,823	4,454,253
Senior notes	805,865	5,326,265	6,132,130	5,169,137
	2,522,687	10,553,454	13,076,141	11,560,578

	2018 Contractual undiscounted cash outflow			
	Within 1 year or on demand $'000	More than 1 year $'000	Total $'000	Carrying amount at 31 August $'000 (Restated)
Trade payables	138,918	–	138,918	138,918
Other payables and accrued charges	461,373	201,266	662,639	662,639
Deposits received	69,343	–	69,343	69,343
Amounts due to joint ventures	10,000	–	10,000	10,000
Contingent consideration, as restated	11,471	28,236	39,707	39,707
Bank loans	117,307	4,338,052	4,455,359	3,873,716
	808,412	4,567,554	5,375,966	4,794,323

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans and interest-rate swap. Financial instruments with variable interest rates expose the Group to cash flow interest rate risk. The Group's interest-bearing financial instruments are set out in (ii) below. The interest rates and terms of repayment of interest-bearing borrowings of the Group are disclosed in note 20 to the financial statements.

(i) Hedging

An interest-rate swap, denominated in Hong Kong dollars ("HKD"), has been entered into achieve an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. At 31 August 2019, the Group had interest-rate swaps with a notional contract amount of $2,635,000,000 (2018: $2,635,000,000) which were not designated as cash flow hedging instrument. The net fair value of swaps entered into by the Group at 31 August 2019 was $64,000 (2018: Asset of $12,024,000). The amount is recognised as derivative financial instrument and included in other payables and accrued charges (see note 19).

(ii) Interest-bearing financial instruments

The following table details the interest-bearing financial instruments of the Group at the end of the reporting period.

	2019	2018
	$'000	$'000
Fixed rate instruments		
Senior notes	**5,169,137**	–
Variable rate instruments		
Bank loans	**4,454,253**	3,873,716
Derivative financial instrument – interest-rate swap	**64**	(12,024)
	4,454,317	3,861,692
Total borrowings	**9,623,454**	3,861,692
Fixed rate borrowings as a percentage of total borrowings	**54%**	–

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk (continued)

(iii) Sensitivity analysis

At 31 August 2019, it is estimated that a general increase/decrease of 50 basis points (2018: 50 basis points) in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately $12,528,000 (2018: $6,411,000). Other components of consolidated equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest expenses of such a change in interest rate.

(d) Currency risk

All the Group's monetary assets and liabilities are primarily denominated in either HKD or 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 ("RMB") arising from its operations in the PRC. 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Financial risk management and fair values of financial instruments (continued)

(d) Currency risk (continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using the spot rate at the year end date.

	2019		2018	
	USD	**RMB**	USD	RMB
	$'000	**$'000**	$'000	$'000
Cash and cash equivalents	**41,338**	**415**	57,988	1,161
Trade receivables	**115,739**	**–**	49,480	–
Trade payables	**(152,679)**	**(443)**	(59,850)	(274)
Other payables and accrued charges	**(31,244)**	**(116,569)**	(19,941)	(105,136)
Senior notes	**(5,272,900)**	**–**	–	–
Net exposure arising from recognised assets and liabilities	**(5,299,746)**	**(116,597)**	27,677	(104,249)

(ii) Sensitivity analysis

The Group's foreign currency risk is mainly concentrated on the fluctuation of the RMB against the HKD. It is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies. The following table details the Group's sensitivity to a 10% increase or decrease in the HKD against the RMB. The sensitivity analysis includes only outstanding foreign currency denominated monetary items including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower, and adjusts their translation at the year end for a 10% change in foreign currency rates. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency.

	2019			2018		
	Increase/ (decrease) in foreign exchange rates	**Impact on profit after tax $'000**	**Impact on retained profits $'000**	Increase/ (decrease) in foreign exchange rates	Impact on profit after tax $'000	Impact on retained profits $'000
RMB	**10%**	**(9,771)**	**(9,771)**	10%	(8,709)	(8,709)
	(10)%	**9,771**	**9,771**	(10)%	8,709	8,709

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Financial risk management and fair values of financial instruments (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2018.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

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 values 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 values 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 values measured using significant unobservable inputs

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

	Fair value at 31 August 2019 $'000	**Fair value measurements as at 31 August 2019 categorised into Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instrument:				
Interest-rate swap	**64**	**–**	**64**	**–**
Contingent consideration	**29,649**	**–**	**–**	**29,649**

	Fair value at 31 August 2018 (Restated) $'000	Fair value measurements as at 31 August 2018 (restated) categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial assets:				
Derivative financial instrument:				
Interest-rate swap	12,024	–	12,024	–
Financial liabilities:				
Contingent consideration, as restated	39,707	–	–	39,707

During the year ended 31 August 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (year ended 31 August 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.

31 Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

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.

Information about Level 3 fair value measurement

The fair value of the contingent consideration relating to the ICG Acquisition are determined considering the expected payment, discounted to present value using a risk-adjusted discount rate of 5% (2018 (restated): 5%), respectively.

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

	2019 **$'000**	2018 $'000 (Restated)
Contingent consideration		
At the beginning of the year	**39,707**	30,358
Business combination and acquisition of a subsidiary *(note 30)*	**–**	28,236
Settlement of contingent consideration for the year	**(11,600)**	(19,324)
Change in fair value during the year	**1,542**	437
At the end of the year	**29,649**	39,707
Contingent consideration – current portion	**1,371**	11,471
Contingent consideration – long-term portion	**28,278**	28,236
Total contingent consideration	**29,649**	39,707

(ii) 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 31 August 2019 and 2018.

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Financial risk management and fair values of financial instruments (continued)

(f) Offsetting financial assets and financial liabilities

The Group enters into netting arrangements with its carriers. The outstanding transactions with these counterparties are settled on a net basis and result in offsetting the assets and liabilities in the statement of financial position.

	2019		
	Gross amounts of recognised financial assets/ (liabilities) $'000	Gross amounts of recognised financial assets/ (liabilities) offset in the consolidated statement of financial position $'000	Net amounts of financial assets/ (liabilities) presented in the consolidated statement of financial position $'000
Trade receivables	**833,960**	**(276,521)**	**557,439**
Trade payables	**(642,497)**	**276,521**	**(365,976)**

	2018		
	Gross amounts of recognised financial assets/ (liabilities) $'000	Gross amounts of recognised financial assets/ (liabilities) offset in the consolidated statement of financial position $'000	Net amounts of financial assets/ (liabilities) presented in the consolidated statement of financial position $'000
Trade receivables	562,017	(314,807)	247,210
Trade payables	(453,725)	314,807	(138,918)

(Expressed in Hong Kong dollars unless otherwise indicated)

32 Commitments

(a) Capital commitments

At 31 August 2019, the Group had the following capital commitments:

	2019 $'000	2018 $'000
Contracted but not provided for		
– Purchase of property, plant and equipment	**190,546**	326,270
– For an acquisition	**–**	296,390
– Redemption of senior notes	**552,131**	–
	742,677	622,660

(b) Commitment under operating leases

(i) At 31 August 2019, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2019 $'000	2018 $'000
Leases in respect of telecommunications facilities which are receivable:		
Within 1 year	**388,196**	72,642
After 1 year but within 5 years	**294,775**	103,607
After 5 years	**114,447**	73,707
	797,418	249,956

(Expressed in Hong Kong dollars unless otherwise indicated)

32 Commitments (continued)

(b) Commitment under operating leases (continued)

(ii) At 31 August 2019, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2019 $'000	2018 $'000
Leases in respect of land and buildings which are payable:		
Within 1 year	**106,887**	52,054
After 1 year but within 5 years	**185,589**	62,281
After 5 years	**129,254**	–
	421,730	114,335
Leases in respect of telecommunications facilities and computer equipment which are payable:		
Within 1 year	**97,820**	97,987
After 1 year but within 5 years	**12,221**	6,629
After 5 years	**–**	–
	110,041	104,616

The Group leases a number of land and buildings and telecommunications facilities and computer equipment under operating lease. The leases typically run for an initial period of six months to fifteen years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of these leases include contingent rentals.

33 Contingent liabilities

	2019 $'000	2018 $'000
Bank guarantee in lieu of payment of utility deposits	**7,913**	7,105

At 31 August 2019, the directors did not consider it is probable that a claim will be made against the Group under any guarantees. The Group has not recognised any deferred income in respect of the guarantees issued as their fair value cannot be reliably measured and their transaction price was $Nil during the year (2018: $Nil).

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.

(Expressed in Hong Kong dollars unless otherwise indicated)

34 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in note 5 and certain of the highest paid employees as disclosed in note 6, as follows:

	2019	2018
	$'000	$'000
Short-term employee benefits	**40,108**	32,532
Post-employment benefits	**3,001**	2,631
Equity compensation benefits	**691**	2,124
	43,800	37,287

Total remuneration is included in "Talent costs" (see note 3(c)).

(b) In connection with the acquisition of the telecommunication business by MLCL from HKTV, completed on 30 May 2012, the Group granted indefeasible rights of use in favour of HKTV allowing it to use certain capacity of the Group's network for a term of 20 years from 30 May 2012, on a free of charge basis. In addition, the Group agreed to provide certain telecommunication services to HKTV, at no additional cost, for a period of 10 years from 30 May 2012. The incremental costs associated with fulfilling the obligations under the granting of indefeasible rights of use to HKTV are expected to be insignificant to the Group. Accordingly, no provision was made by the Group in this connection.

(Expressed in Hong Kong dollars unless otherwise indicated)

35 Company-level statement of financial position

	Note	2019 $'000	2018 $'000
Non-current assets			
Investments in subsidiaries		**1,164,002**	1,163,205
Other non-current assets		**117**	348
		1,164,119	1,163,553
Current assets			
Other receivables, deposits and prepayments		**534**	539
Amounts due from subsidiaries		**6,654,102**	6,504
Cash and cash equivalents		**1,977**	199
		6,656,613	7,242
Current liabilities			
Other payables and accrued charges		**4,079**	2,922
Amounts due to subsidiaries		**94,230**	34,468
		98,309	37,390
Net current assets /(liabilities)		**6,558,304**	(30,148)
NET ASSETS		**7,722,423**	1,133,405
CAPITAL AND RESERVES	28(a)		
Share capital		**132**	101
Reserves		**7,722,291**	1,133,304
TOTAL EQUITY		**7,722,423**	1,133,405

Approved and authorised for issue by the board of directors on 24 October 2019.

Chu Kwong YEUNG) Directors

Ni Quiaque LAI)

36 Non-adjusting events after the reporting period

On 23 August 2019, HKBNGL, an indirect wholly-owned subsidiary of the Company, and JTH (BVI) Limited ("JTH"), amongst others, entered into the share purchase agreement (the "Share Purchase Agreement"), pursuant to which, among other things, HKBNGL has conditionally agreed to purchase, and JTH has conditionally agreed to sell, the entire issued share capital of Jardine OneSolution Holdings (C.I.) Limited, Adura Hong Kong Limited and Adura Cyber Security Services Pte Ltd (collectively, the "Target Companies") for a consideration of US$50,000,000 (equivalent to $393,500,000) in cash (subject to certain closing and post-closing adjustments). Jardine Technology Holdings Limited has agreed to guarantee to HKBNGL the proper and punctual performance by JTH of its obligations under the Share Purchase Agreement. MLCL, a wholly-owned subsidiary of the Company, has agreed to guarantee to JTH the proper and punctual performance by HKBNGL of its obligations under the Share Purchase Agreement. Upon satisfaction of the condition precedent(s) as set out in the Share Purchase Agreement, the Target Companies will become direct wholly-owned subsidiaries of HKBNGL and indirect wholly-owned subsidiaries of the Company. The proposed transaction was not yet completed on the date of this report and no adjustments have been made to this annual report as a result of the above event.

On 16 September 2019, MLCL completed a conditional redemption of 10% of the senior notes due 2022 at a redemption price of 103% plus accrued and unpaid interest. Immediately upon the completion of the conditional redemption, US$603,000,000 (equivalent to $4,745,610,000) in aggregate principal amount of the senior notes remained outstanding. The redemption was completed using the Group's internal resources.

On 25 September 2019, HKBN, an indirect wholly-owned subsidiary of the Company, obtained a $1,000,000,000 uncommitted revolving loan facility from a bank in Hong Kong that bears interest at HIBOR plus a margin per annum on the utilised amount.

(Expressed in Hong Kong dollars unless otherwise indicated)

37 Accounting judgement and estimates

Sources of estimation uncertainty

Note 31 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Loss allowance for credit losses

The Group maintains impairment loss for doubtful debts based upon evaluation of the recoverability of the trade and other receivables which takes into account the historical write-off experience and recovery rates. If the financial condition of the customers were to deteriorate, additional impairment may be required.

(b) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group has significant property, plant and equipment and intangible assets (other than goodwill). The Group is required to estimate the useful lives of property, plant and equipment and intangible assets (other than goodwill) in order to ascertain the amount of depreciation and amortisation charges for each reporting period.

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

(Expressed in Hong Kong dollars unless otherwise indicated)

37 Accounting judgement and estimates (continued)

Sources of estimation uncertainty (continued)

(d) Fair value of assets acquired and liabilities assumed upon acquisition

In connection with acquisition of subsidiaries, the assets acquired and liabilities assumed were adjusted to their estimated fair values on the date of acquisition. The determination of the values of assets acquired and liabilities assumed involves management's judgements and assumptions. The values of assets acquired and liabilities assumed were based on valuation report from independent professional qualified valuer. Such valuations were based on certain assumptions, which were subject to uncertainty and might materially differ from the actual results. Any change in such judgements and assumptions would affect the fair value of assets acquired and liabilities assumed.

(e) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy set out in note 1(k)(iii).

The recoverable amount of an asset or a cash-generating unit has been determined based on its value-in-use. These calculations require the use of estimates. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected operating margin, growth rates and selection of discount rates, to reflect the risks-involved and the earnings multiple that can be realised for the estimated terminal value.

Management prepared the financial budgets reflecting actual performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the result of the impairment reviews.

(f) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation and practices.

(Expressed in Hong Kong dollars unless otherwise indicated)

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 August 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 29 February 2020. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16, *Leases*

As disclosed in note 1(j), 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. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

(Expressed in Hong Kong dollars unless otherwise indicated)

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2019 (continued)

HKFRS 16, *Leases* (continued)

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 September 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 September 2019 and will not restate the comparative information. As disclosed in note 32(b), at 31 August 2019 the Group's future minimum lease payments under non-cancellable operating leases amount to $421,730,000 and $110,041,000 for (i) land and buildings and (ii) telecommunications facilities and computer equipment respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to $360,136,000 and $318,406,000 respectively, after taking account the effects of discounting, as at 1 September 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

Five year summary

(Expressed in Hong Kong dollars)

The following table summarises the consolidated results, assets and liabilities of the Group for the five years ended 31 August 2019.

	Years ended 31 August				
	2019	2018	2017	2016	2015
	$'000	$'000	$'000	$'000	$'000
Results					
Revenue	**5,107,637**	3,948,952	3,232,310	2,784,007	2,341,113
Profit from operations	**568,909**	607,249	465,396	476,645	449,980
Finance costs	**(259,271)**	(117,288)	(210,740)	(141,891)	(260,023)
Share of profits/(losses) of associates	**–**	–	3,418	(15)	–
Share of losses of joint ventures	**(276)**	(693)	(920)	(185)	(107)
Profit before taxation	**309,362**	489,268	257,154	334,554	189,850
Income tax	**(94,835)**	(92,371)	(86,044)	(89,875)	(85,582)
Profit for the year	**214,527**	396,897	171,110	244,679	104,268

Five year summary (continued)

(Expressed in Hong Kong dollars)

	As at 31 August				
	2019	2018	2017	2016	2015
	$'000	$'000 (Restated) (note)	$'000	$'000	$'000
Assets and liabilities					
Goodwill	**8,788,319**	1,801,393	1,771,969	1,771,969	1,594,110
Intangible assets	**4,638,643**	1,453,588	1,612,707	1,550,209	1,330,501
Property, plant and equipment	**4,341,590**	2,293,950	2,289,790	2,419,890	1,969,803
Investment properties	**222,041**	–	–	–	–
Customer acquisition and retention costs	**598,030**	–	–	–	–
Contract assets	**4,740**	–	–	–	–
Interest in associates	**–**	–	–	7,473	–
Interest in joint ventures	**9,429**	8,095	8,788	9,708	9,893
Other non-current assets	**32,105**	64,950	24,600	19,618	19,503
Net current assets	**2,003**	46,205	115,211	95	138,664
Total assets less current liabilities	**18,636,900**	5,668,181	5,823,065	5,778,962	5,062,474
Other payables and accrued charges – long-term portion	**(143,600)**	(201,266)	(293,748)	(99,008)	(13,413)
Contract liabilities-long-term portion	**(187,690)**	–	–	–	–
Deferred services revenue – long-term portion	**–**	(79,371)	(92,752)	(55,923)	(13,844)
Obligations under granting of rights – long-term portion	**(15,795)**	(24,819)	(33,843)	(42,867)	(51,891)
Deferred tax liabilities	**(1,131,440)**	(408,218)	(423,618)	(450,980)	(438,916)
Contingent consideration – long-term portion	**(28,278)**	(28,236)	(2,869)	(27,885)	–
Provision for reinstatement costs	**(50,146)**	(15,643)	(16,015)	(17,644)	(11,334)
Bank loans	**(4,454,253)**	(3,873,716)	(3,831,332)	(3,721,297)	(3,018,889)
Senior notes	**(5,169,137)**	–	–	–	–
NET ASSETS	**7,456,561**	1,036,912	1,128,888	1,363,358	1,514,187
Capital and reserves					
Share capital	**132**	101	101	101	101
Reserves	**7,456,429**	1,036,811	1,128,787	1,363,257	1,514,086
TOTAL EQUITY	**7,456,561**	1,036,912	1,128,888	1,363,358	1,514,187

Note; The financial figures for the year ended 31 August 2018 have been restated due to the completion of the purchase price allocation of certain business combinations took place the year ended 31 August 2018, as disclosed in note 1(b)(i) to the consolidated financial statements.

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]
Mr. Teck Chien KONG [4]

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

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Hong Kong

Auditor

KPMG

Certified Public Accountants
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Central
Hong Kong

Cayman Principal Share Registrar and Transfer Office

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Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

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Wanchai
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Principal Bankers

Citibank, N.A., Hong Kong Branch

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3 Garden Road, Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited

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4-4A Des Voeux Road Central
Hong Kong

Company's Website

www.hkbnltd.net

Stock Code

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References to HKEX ESG Reporting Guide

Aspects and General Disclosures	Descriptions	Related chapters/Notes
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Our Strategy, Report of the Directors, Environment
KPIs	• A1.1 The types of emissions and respective emissions data • A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility) • A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility) • A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility) • A1.5 Description of measures to mitigate emissions and results achieved • A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	• Environment • Environment • Environment • Environment • Environment • Environment
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Our Strategy, Report of the Directors, Environment
KPIs	• A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility) • A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility) • A2.3 Description of energy use efficiency initiatives and results achieved • A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved • A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	• Environment • Environment • Environment • Environment • Environment

References to HKEX ESG Reporting Guide

Aspects and General Disclosures	Descriptions	Related chapters/Notes
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Our Strategy, Report of the Directors, Environment
KPIs	• A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	• Environment
B. Social		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Our Strategy, Report of the Directors, Talents, Corporate Governance Report
KPIs	• B1.1 Total workforce by gender, employment type, age group and geographical region • B1.2 Employee turnover rate by gender, age group and geographical region	• Report of the Directors, Talents, Corporate Governance Report • This data is currently being consolidated, and will be disclosed once available
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Our Strategy, Report of the Directors, Talents
KPIs	• B2.1 Number and rate of work-related fatalities • B2.2 Lost days due to work injury • B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored	• Talents • Talents • Talents
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Our Strategy, Talents, Corporate Governance Report
KPIs	• B3.1 The percentage of employees trained by gender and employee category • B3.2 The average training hours completed per employee by gender and employee category	• This data is currently being consolidated, and will be disclosed once available • This data is currently being consolidated, and will be disclosed once available

References to HKEX ESG Reporting Guide

Aspects and General Disclosures	Descriptions	Related chapters/Notes
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Our Strategy, Report of the Directors, Talents, Corporate Governance Report
KPIs	• B4.1 Description of measures to review employment practices to avoid child and forced labour • B4.2 Description of steps taken to eliminate child and forced labour practices when discovered	• Not material to HKBN's business and therefore such data is not covered in this report • Not material to HKBN's business and therefore such data is not covered in this report
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Our Strategy, Report of the Directors, Suppliers
KPIs	• B5.1 Number of suppliers by geographical region • B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	• Not material to HKBN's business and therefore such data is not covered in this report • This data is currently being consolidated, and will be disclosed once available
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Our Strategy, Report of the Directors, Customer, Corporate Governance Report

References to HKEX ESG Reporting Guide

Aspects and General Disclosures	Descriptions	Related chapters/Notes
KPIs	• B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons • B6.2 Number of products and service related complaints received and how they are dealt with • B6.3 Description of practices relating to observing and protecting intellectual property rights • B6.4 Description of quality assurance process and recall procedures • B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored	• This data is currently being consolidated, and will be disclosed once available • This data is currently being consolidated, and will be disclosed once available • Report of the Directors, Corporate Governance Report • This information is currently being collected, and will be disclosed once available • Report of the Directors, Customer, Corporate Governance Report
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Corporate Governance Report
KPIs	• B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases • B7.2 Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	• Corporate Governance Report • Corporate Governance Report
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Our Strategy, Community
KPIs	• B8.1 Focus areas of contribution • B8.2 Resources contributed to the focus areas	• Our Strategy, Community • Community

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