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HKBN Ltd.
香港寬頻有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1310)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

(All references to "$" are expressed in Hong Kong dollars)

The Board of Directors (the "**Board**") of HKBN Ltd. (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 28 February 2019 ("**1H2019**"). These results were based on the unaudited consolidated interim financial statements for 1H2019, which were prepared in accordance with the Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

- Revenue, EBITDA and Adjusted Free Cash Flow ("**AFCF**") continued to grow year-on-year at 19%, 22% and 26%, respectively, to $2,219 million, $723 million and $299 million. EBITDA rose by 22% year-on-year mainly due to the exclusion of the amortisation of customer acquisition and retention costs from calculation of EBITDA, after adopting HKFRS 15. EBITDA before the adoption of HKFRS 15 was $626 million, representing a 5% year-on-year growth.

- Group revenue increased by 19% year-on-year, mainly contributed by the increase in residential revenue, enterprise revenue and product revenue by 11%, 16% and 140%, respectively.

- Residential revenue increased by 11% year-on-year to $1,223 million, mainly driven by robust growth in mobile service revenue, as evidenced by 26% year-on-year growth in the number of activated subscribers to 280,000 in 1H2019. In addition, our historical full base residential ARPU also increased by 6% year-on-year, from $173/month in the six months ended 28 February 2018 ("**1H2018**") to $184/month in 1H2019, which provided direct contribution to AFCF.

- The Board has recommended 31% increase in payment of interim dividend of 34 cents per share versus 26 cents per share for the same period last year.

SHAREHOLDER LETTER

Dear Fellow HKBN Shareholders,

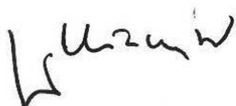
In the six months to 28 February 2019, we continued to grab industry market share to achieve above industry year-on-year growth of 19% in revenue and 22% in EBITDA, so as to deliver 31% growth in dividend per share.

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

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

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

Sincerely yours,



William Yeung
Co-Owner and Executive Vice-chairman

NiQ Lai
Co-Owner and Chief Executive Officer

KEY FINANCIAL AND OPERATIONAL SUMMARY

Table 1: Financial highlights

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

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

KEY FINANCIAL AND OPERATIONAL SUMMARY (CONTINUED)

Table 2: Operational highlights

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

Notes:

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

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

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

(4) EBITDA margin means EBITDA divided by revenue.

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

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

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

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

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

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

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

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

BUSINESS REVIEW

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

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

Residential Solutions Review

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

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

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

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

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

Enterprise Solutions Review

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

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

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

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

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

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

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

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

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

OUTLOOK

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

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

- To expand our quad-play bundle plans to multi-play to drive APRU and subscription growth and disrupt the legacy broadband, fixed-voice, multimedia content and mobile standalone services;

- Further penetrate the enterprise market through our broad range of business-imperative services and more network capacity;

- Continue to cultivate our Talent-oriented Co-Ownership culture that aligns risks and rewards with shareholders by extending the invitation to a broader Talent base at HKBN as well as WTT Talents in the revamped Co-Ownership Plan III; and

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

HEDGING

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

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

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

CHARGE ON GROUP ASSETS

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

CONTINGENT LIABILITIES

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

EXCHANGE RATES

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

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

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

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

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

TALENT REMUNERATION

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

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

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

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

SHARE INCENTIVE SCHEME

Under the Co-Ownership Plan II, the Board may, in its absolute discretion, invite participants to purchase shares of the Company and agree to grant them a contingent right to receive shares ("**RSU**") at the relevant matching ratio in respect of any shares purchased, subject to certain terms, conditions and undertakings. The total number of shares that may underlie the RSUs granted pursuant to the Co-Ownership Plan II shall be (i) 10% of the shares in issue on 12 March 2015 (the "**Listing Date**"), the date on which the Company was listed on The Stock Exchange of Hong Kong Limited (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.

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

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

* *Director of the Company*

INTERIM DIVIDEND

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

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

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 17 May 2019 to Monday, 20 May 2019, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 16 May 2019 in order to establish the identity of the Shareholders who are entitled to qualify for the interim dividend.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

REVIEW OF INTERIM FINANCIAL INFORMATION

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

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

CORPORATE GOVERNANCE

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

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

at the date of this announcement, the Nomination Committee comprises a majority of Independent Non-executive Directors, which ensures a balance of power and representation of Independent Non-executive Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by Directors. Having made specific enquiries with all Directors, they confirmed that they complied with the Model Code throughout 1H2019.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hkbnltd.net). The interim report of the Company for 1H2019 will be despatched to the shareholders of the Company and made available on the same websites in due course.

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

Hong Kong, 30 April 2019

As at the date of this announcement, the Board comprises:

Executive Directors
Mr. Chu Kwong YEUNG
Mr. Ni Quiaque LAI

Non-executive Directors
Ms. Deborah Keiko ORIDA
Mr. Zubin Jamshed IRANI
Mr. Teck Chien KONG

Independent Non-executive Directors
Mr. Bradley Jay HORWITZ *(Chairman)*
Mr. Stanley CHOW
Mr. Yee Kwan Quinn LAW, SBS, JP

Where the English and the Chinese texts conflict, the English text prevails.

UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

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

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

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

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 28 FEBRUARY 2019

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

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 28 FEBRUARY 2019

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

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION:

1 BASIS OF PREPARATION

The unaudited consolidated interim financial information set out in this announcement does not constitute the Group's interim financial report for the six months ended 28 February 2019 but is extracted from that interim financial report which has been prepared in accordance with the Listing Rules, including compliance with HKAS 34, *Interim financial reporting*, issued by the HKICPA. It was authorised for issued on 30 April 2019.

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

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

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

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 August 2018 that is included in the interim financial report as comparative information does not constitute the Group's financial statements for that financial year but is derived from those financial statements.

2 CHANGES IN ACCOUNTING POLICIES

(a) Overview

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Overview (Continued)

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

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

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

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

(b) HKFRS 9, *Financial instruments*

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

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

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

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

(i) Classification of financial assets and financial liabilities

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

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

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

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

(ii) Credit losses

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

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

(ii) Credit losses (Continued)

Measurement of ECLs

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

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

(ii) Credit losses (Continued)

Significant increases in credit risk

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

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

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

(ii) Credit losses (Continued)

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

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

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

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

– significant financial difficulties of the debtor;

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

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

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

Write-off policy

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

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

Impact of the ECL model

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

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

(ii) Capitalisation of contract costs

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

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

(iii) Presentation of contract assets and liabilities

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

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

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

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

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

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

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

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

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

3 SEGMENT REPORTING

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

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

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

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

4 REVENUE

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

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

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

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

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

5 PROFIT BEFORE TAXATION

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

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

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

5 PROFIT BEFORE TAXATION (CONTINUED)

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

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

6 INCOME TAX

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

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

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

7 EARNINGS PER SHARE

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

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

8 ACQUISITION OF A SUBSIDIARY

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

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

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

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

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

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

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

9 TRADE RECEIVABLES

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

	At 28 February 2019	At 31 August 2018
	$'000	*$'000*
Within 30 days	**135,906**	117,261
31 to 60 days	**49,406**	52,844
61 to 90 days	**30,183**	25,968
Over 90 days	**115,449**	51,137
	330,944	247,210

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

10 TRADE PAYABLES

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

	At 28 February 2019	At 31 August 2018
	$'000	*$'000*
Within 30 days	**110,448**	46,123
31 to 60 days	**23,689**	9,786
61 to 90 days	**35,313**	31,038
Over 90 days	**126,225**	51,971
	295,675	138,918

11 CAPITAL AND DIVIDENDS

(a) Share capital

As at 28 February 2019, 3,800,000,000 ordinary shares, with par value of $0.01 cent each, were authorised for issue. As at 28 February 2019, the Company had 1,005,666,666 (28 February 2018: 1,005,666,666) ordinary shares in issue. Upon closing of the WTT Merger as referred to in note 12, 305,932,690 new ordinary shares were issued on 30 April 2019. As at the date of this interim financial report, there are in total 1,311,599,356 issued ordinary shares in the share capital of the Company.

(b) Dividends

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

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

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

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

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

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

12 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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