

For immediate release

HKBN Announces Solid Results for the 6 Months Ended 28 Feb 2023 Clear J-Curve Turnaround Driven by ICT Powerhouse Transformation

(Hong Kong - 26 April 2023) HKBN Ltd. (“HKBN” or the “Company”; SEHK stock code: 1310) today announced solid operational and financial results for the six months ended 28 February 2023 (“1H2023”). Despite world macro-economic challenges, HKBN is recovering through its ICT powerhouse transformation and broadening Infinite-play strategy. Key highlights of 1H2023 results include:

- Revenue of HK\$6,707 million and after excluding the four months impact in 1H2022 of the Disposal Group[#], year-on-year growth is 2%.
- EBITDA (Adjusted) of HK\$1,196, decreased year-on-year by 6%.
- The Board has recommended an interim dividend payment of 20 HK cents per share (1H2022: 40 HK cents per share).

[#] On 3 January 2022, HKBN Group completed the disposal of 60% of the issued share capital of HKBN JOS (SINGAPORE) PTE. LTD. and HKBN JOS (MALAYSIA) SDN. BHD. (collectively, the “Disposal Group”) to StarHub Ltd..

Enterprise: ICT powerhouse transformation results in a clear J-curve turnaround

Despite a challenging economic environment brought by prolonged COVID-19, HKBN’s Enterprise revenue rebounded with a clear J-curve turnaround driven by its ongoing transformation to an ICT powerhouse. With this transformation, the Enterprise business is aggressively leveraging the commercialisation of its tri-carrier fibre network, a market-unparalleled advantage, to strengthen its overall core business and solutions offerings. In addition, by unleashing the full potential of its JOS acquisition, a market-leading system integrator, the Enterprise business will generate long-term growth opportunities as it further expands focus on delivering end-to-end system integration and digital transformation for customers in Hong Kong, mainland China (especially in the Greater Bay Area) and the ASEAN regions. During 1H2023, Enterprise service revenue grew half-on-half at 9.9% to HK\$2,348 million, with momentum for accelerated growth in the J-Curve turnaround moving forward.

Residential: Expanding Infinite-play for growth

As HKBN continued delivering high value bundle choices to customers, residential broadband subscriber numbers recorded a year-on-year increase of 3% to 915,000, holding a significant share of the market despite intense competition. The Company also continued expanding its Infinite-play strategy in the residential market by launching electronics shopping platform Shoppy. HKBN will continue to grow by focusing on bringing together disruptive value-added services, add-ons, experiences and market-leading OTT entertainment to capture greater wallet share of the consumer market.

Confidently executing J-Curve rebound

William Yeung and NiQ Lai, Co-Owners of HKBN said, “In business, the flywheel effect happens when small wins build on each other over time and eventually gain so much momentum that growth almost seems to happen by itself. The ~2-year revenue lag due to contract amortisation, together with the ramp-up time of new executives joining, means that the flywheel elements that we are seeing operationally today will take one to two years to play out into our business performance. The first half of FY23 already showed a marked sequential improvement over the second half of FY22, and we are confident that this J-curve turnaround will continue with the second half of FY23 being better than the first half of FY23.”

For more details of HKBN’s results in 1H2023, please refer to the announcement:

https://reg.hkbn.net/WwwCMS/upload/pdf/en/e_FY23_InterimResultsAnnouncement.pdf

Appendix: Shareholder Letter



Photo caption: HKBN announced solid results for the first half of FY23. (From left) HKBN Co-Owner and Executive Vice-chairman William Yeung and HKBN Co-Owner and Group CEO NiQ Lai.

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Appendix

Shareholder Letter

Dear Fellow Shareholders,

ICT Powerhouse

Telecom for Profits x SI for Growth

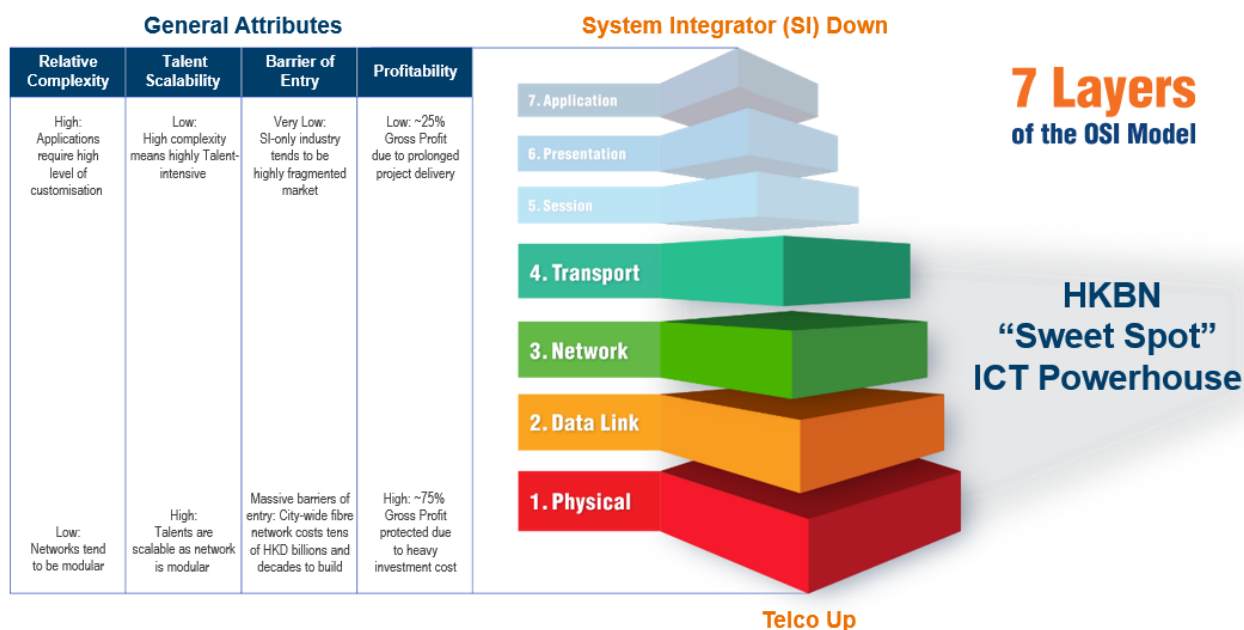
Today, our Telecom segment delivers the majority of our group's total profits. As Telco specialists with 30 years of experience, we stand proud. However, whilst we love telecommunications, if HKBN doesn't evolve into a full-fledged Information and Communication Technologies (ICT) company, our telecom business will, like any industry, mature over time and this is why we vertically acquired System Integrator Jardine One Solution (JOS) in 2019 so that we can transform from a Telecom-only + System Integration (SI)-only into an integrated ICT Powerhouse.

Telecom + SI = ICT Powerhouse

Today, our core Telecom-only business commands ~75% gross profit margin in a highly concentrated market whereas the traditional SI-only business commands ~25% gross profit in a vibrant highly fragmented high-growth market. Our strategy, as articulated in Figure 1 below, is to leverage our SI capacity to pull up the growth in our Telecom business. Telecom-only is a commodity as buyers can easily set their performance requirements into a Service Level Agreement (SLA) and then tender out to carriers who must bid with the only differentiator being price. ICT projects are far more complex as they are customised in partnership with decision making "Chief Information Officer" level customers, and price only plays a minority element of their total purchase decision. Being the ICT partner to our CIO customers means that we help them plan their forward 3-year budgets rather than merely fight for an allocation of their existing telecom budget which is typically amounts to only 5%-10% of the total ICT budget (for context, SI spend is typically 10-20x more than that on telecom-only).

With our integrated Telecom and SI capacity, if we manage our sales pipeline properly, we will have the luxury to prioritise the most profitable total solution deals that we can replicate via repeated modular deployments. For example, the network security needs of one major bank are mostly similar to those of other major banks and even for smaller financial institutions, i.e. this is how we can maximise an existing solutions deal by Ford "Model-T" our processes. SI-only competitors do not have HKBN's scale and reach to do this. In the 7-layer of Open Systems Interconnection (OSI) model, our sweet spot is towards the lower infrastructure-heavy layers which requires very large capital investment, something that standalone SI competitors cannot replicate. Our sweet spot is where the gross margins are highest due to the reliance on heavy infrastructure and where our barriers of entry are most effective, i.e. between HKBN, New World Telecom and Wharf T&T, we have invested tens of billions of Hong Kong dollars into our network since 1995. In short, we are evolving into an ICT Powerhouse by using SI to pullup the growth in our Fixed Telecom Network Services (FTNS) business, and using FTNS as a foundation for SI profitability.

Figure 1: Typical Players Traditional Segments Focus



ICT vs Medical Industry

The 7-layer of OSI is a technical explanation of our strategy. A layman explanation would be to make an analogy using medical industry. ICT and medical industries are both massive and growing. In medicine, there are:

- specialists such as heart surgeons who maybe great at what they do but this is not scalable, i.e., this is the top of the 7-layer of OSI model, which we do not focus on.
- a wide range of General Practitioner clinics large and small, as barriers of entry to this segment are low, hence the profit ceiling is also low, i.e., the middle layers of the 7-layer of OSI model served by highly fragmented big and small SI-only providers.
- segments that require heavy upfront investment in equipment, such as a Lasik machine. Lasik surgery is mission critical¹ as it impacts our eyesight, but the procedure is highly scalable. The gross profit margin per Lasik session is incredibly high, as there are very little machine related variable costs involved, i.e., this is the bottom layer of the 7-layer of OSI model, which is the sweet spot where our Legal Unfair Competitive Advantage (LUCA) is most obvious.

While the above focuses on the similarities between the ICT and medical industry, where we are different is that our Lasik machine, i.e. our Tri-versity fibre network is a best of breed combination of HKBN, New World Telecom and Wharf T&T fibre networks, which costs tens of billions of Hong Kong dollars invested over 25 years.

¹ We (William and NiQ) had Lasik surgery done on our eyes and we went for the best Lasik doctor, rather than the cheapest.

HKBN Fibre Network
= 25 Years to Build a HK\$ Tens of Billions Lasik Machine



Checkout our Enterprise Sales Order²

The majority of our business, be it residential or enterprise, maintains on ~2-year contract. For example, if we sign a 2-year HK\$2,400 service contract, we will typically recognise this as HK\$100/month x 24 months. As such, there is ~2 year “latency” in our actions today and the full impact on our results. Consistent with this, is that the COVID-19 impact from two years ago is only now being detoxed out of our current results. The upside of this ~2-year latency is that we have great transparency in our forward business sales order.

As can be seen below in Figure 2: Enterprise Solutions (ES) Orders, our total quarterly signed contract sum has shown very strong momentum since the 4th quarter (June to August 2022) of Financial Year to 31 August 2022. We are confident that as we build and enhance our teams, this momentum will accelerate as we achieve flywheel status.

Figure 2:
ES Orders

Growing Orders for Enterprise Business

(In HK\$'mn)



² ES Orders refers to contracts signed but not yet recognised as revenue.

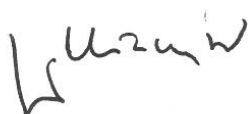
Executing “Make our Home a Better Place to Live”

COVID-19 made it abundantly clear that digital transformation is a business need rather than a luxury. As per how we democratised international calls in the 1990s and fibre Internet access in the 2000s, we believe digital technologies should be also made affordable for all companies, big and small. We’ve continued to invest heavily in our technology capabilities and Talent pool through COVID-19, so that all companies — from small-medium enterprises, to multinational conglomerates to Non-Government Organisations (NGO), — can worry less about their ICT support functions and focus more on their front-line capabilities. Beyond our fiber, we aim to amplify a bigger positive impact to our community to “**Make our Home a Better Place to Live**”. In particular, we are pleased to offer NGOs our full suite of services at cost, as our sustainable social contribution to empower NGOs to make a bigger positive impact to our “Home”.

Executing our Flywheel Transformation into an ICT Powerhouse

In business, the flywheel effect happens when small wins build on each other over time and eventually gain so much momentum that growth almost seems to happen by itself. COVID-19, beyond just slowing our business, also slowed our transformative integration of JOS (which was acquired in December 2019). During COVID-19, Talents were hesitant to move but since post COVID-19, our transformation has really accelerated; 6 of the top 14, or 43%, of the most senior executives in our Enterprise Solutions have joined us in the past 10 months. The ~2-year revenue lag as explained above, together with the ramp-up time of new executives joining, means that the flywheel elements that we are seeing operationally today, will take 1-2 years to play out into our business performance.

Confidently yours on behalf of 5,000 HKBNers,



William Yeung
Co-Owner and Executive Vice-chairman



NiQ Lai
Co-Owner and Group CEO