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 2021

(Unless otherwise stated, all monetary figures in this announcement are 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 2021 ("**1H2021**"). These results were based on the unaudited consolidated interim financial statements for 1H2021, 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**").

Since the start of COVID-19, we have received government subsidies from the regions we operate in and have substantially passed all of these to our Talents. This set of results are inclusive of those pass through:

- Revenue and EBITDA continued to grow year-on-year at 40% and 2%, respectively, to $6,230 million and $1,312 million, while Adjusted Free Cash Flow ("**AFF**") dropped year-on-year by 11% to $391 million mainly due to the one time premium paid on senior notes redemption. Core AFF after excluding premium paid on senior notes redemption increased by 7% year-on-year to $505 million.

- Revenue increased by 40% year-on-year to $6,230 million, which was mainly contributed by six months of operating results of HKBN JOS*.

- Reported EBITDA increased by 2% to $1,312 million mainly contributed by the smooth integrations with WTT# and HKBN JOS which brought operational efficiencies to the Group.

- The Board has recommended the payment of an interim dividend of 39 cents per share (1H2020: 37 cents per share), resulting in a 5% year-on-year increase.

* *HKBN JOS represents HKBN JOS Holdings (C.I.) Limited and its subsidiaries, Adura Hong Kong Limited and ADURA CYBER SECURITY SERVICES PTE. LTD..*

WTT represents HKBN Enterprise Solutions Development Ltd and its subsidiaries.

SHAREHOLDER LETTER

Dear Fellow HKBN Shareholders,

Looking back at the COVID-19 situation so far, we are most proud of how we have treated our Talents. Since the start of COVID-19, we have received $210 million in government subsidies from the regions we operate in and have substantially passed all of this to our Talents. Even inclusive of this government subsidy pass-through, we still managed to deliver industry leading growth in revenue, EBITDA and DPS of 40%, 2% and 5% respectively. In being Talent-obsessed, i.e. looking after our Talents in tough times, we believe they will go out of their way to position our HKBN for the post COVID-19 rebound. Had we taken the regional government subsidies and passed all of it on to our shareholders instead, this would have represented DPS of 14 cents.

In the enterprise market, via our series of acquisitions, including the two most transformative of integrations of WTT, for extended telecom reach, and of JOS, for add-on system integration capabilities, our most impactful change is the transition from specialist sales to single-point-of-contact relationship management. Our unique relationship management approach to the Information and Communications Technology (ICT) industry is designed from a customer-IN perspective, to help our customers, i.e. typically CIOs and CEOs, solve their business problems, rather than just sell them a specific service. Relationship management elevates our position from sales to problem solver, hence it opens the C-suite doors to us, versus merely dealing with the procurement office in the past. HKBN's Legal Unfair Competitive Advantage (LUCA) today, is that we now have a full tool box rather just a single tool; in the past we were just a telecom carrier, so suffered the "*to a hammer, everything looks like a nail*" syndrome.

In the residential market, by launching our e-commerce platform HOME+ together with like-minded partners, we are transforming from quad-play per household to infinite-play per person, tripling our reach from 1 million households to 3 million people. The value that we bring to the residential market is our reach and ability to bring different partners together into one bill for each customer.

We are in the process of transforming into a true ICT partner to our customers, making competition with the fragmented standalone telecom carriers, system integrators, etc. irrelevant. HKBN's business profile today is unrecognisable from 5 years ago, and in another 5 years' time, we would have changed so much to be unrecognisable again from today.

Sincerely yours,

William Yeung
Co-Owner and Executive Vice-chairman

NiQ Lai
Co-Owner and Group CEO

KEY FINANCIAL AND OPERATIONAL SUMMARY

Table 1: Financial highlights

	For the six months ended 28 February 2021	29 February 2020	Change YoY
Key financials ***($'000)***			
Revenue	**6,229,584**	4,457,282	**+40%**
– Enterprise Solutions	**2,615,595**	2,275,641	**+15%**
– Enterprise Solutions related product	**1,248,523**	636,087	**+96%**
– Residential Solutions	**1,224,434**	1,251,575	**-2%**
– Other product	**1,141,032**	293,979	**>100%**
Profit for the period	**48,562**	131,584	**-63%**
Adjusted Net Profit [1,2]	**385,016**	345,296	**+12%**
EBITDA [1,3]	**1,311,817**	1,283,359	**+2%**
Service revenue	**3,840,029**	3,527,216	**+9%**
Service EBITDA [1,3]	**1,077,828**	1,171,041	**-8%**
Service EBITDA margin [1,4]	**28.1%**	33.2%	**-5.1pp**
Adjusted Free Cash Flow [1,5]	**391,457**	440,175	**-11%**
Core Adjusted Free Cash Flow [1,5]	**505,233**	471,632	**+7%**
Reconciliation of Adjusted Net Profit [1,2]			
Profit for the period	**48,562**	131,584	**-63%**
Amortisation of intangible assets	**241,497**	300,641	**-20%**
Deferred tax arising from amortisation of intangible assets	**(39,000)**	(48,993)	**-20%**
Loss on extinguishment of senior notes	**145,463**	43,373	**>100%**
Deferred tax recognised on unused tax losses	**(11,506)**	(87,878)	**-87%**
Transaction costs in connection with business combination	**–**	6,569	**-100%**
Adjusted Net profit	**385,016**	345,296	**+12%**
Reconciliation of EBITDA, Adjusted Free Cash Flow & Core Adjusted Free Cash Flow [1,3,5]			
Profit for the period	**48,562**	131,584	**-63%**
Finance costs	**325,496**	286,258	**+14%**
Interest income	**(1,271)**	(1,532)	**-17%**
Income tax charge/(credit)	**41,976**	(51,630)	**>100%**
Depreciation	**507,518**	466,265	**+9%**
Amortisation of intangible assets	**241,497**	300,641	**-20%**
Amortisation of customer acquisition and retention costs	**148,039**	145,204	**+2%**
Transaction costs in connection with business combination	**–**	6,569	**-100%**
EBITDA	**1,311,817**	1,283,359	**+2%**
Capital expenditure	**(325,604)**	(249,433)	**+31%**
Net interest paid	**(219,309)**	(200,200)	**+10%**
Other non-cash items	**(4,173)**	(729)	**>100%**
Income tax paid	**(223,375)**	(156,582)	**+43%**
Customer acquisition and retention costs	**(132,914)**	(131,386)	**+1%**
Premium paid on senior notes redemption	**(113,776)**	(31,457)	**>100%**
Lease payments in relation to right-of-use assets	**(152,693)**	(86,782)	**+76%**
Changes in working capital	**251,484**	13,385	**>100%**
Adjusted Free Cash Flow	**391,457**	440,175	**-11%**
Premium paid on senior notes redemption	**113,776**	31,457	**>100%**
Core Adjusted Free Cash Flow	**505,233**	471,632	**+7%**

KEY FINANCIAL AND OPERATIONAL SUMMARY (CONTINUED)

Table 2: Operational highlights

	For the six months ended			
	28 February 2021	31 August 2020	29 February 2020	**Change YoY**
Enterprise business				
Commercial building coverage	**7,418**	7,374	7,295	**+2%**
Subscriptions *('000)*				
– Broadband	**118**	117	116	**+2%**
– Voice	**434**	443	453	**-4%**
Market share [6]				
– Broadband	**36.7%**	36.6%	37.6%	**-0.9pp**
– Voice	**25.2%**	25.3%	25.6%	**-0.4pp**
Enterprise customers *('000)*	**105**	105	104	**+1%**
Broadband churn rate [9]	**1.5%**	1.4%	1.2%	**+0.3pp**
Enterprise ARPU [10]	**$3,028**	$3,191	$2,775	**+9%**
Residential business				
Fixed telecommunications network services business				
Residential homes passed *('000)*	**2,438**	2,415	2,377	**+3%**
Subscriptions *('000)*				
– Broadband	**886**	886	882	**+0%**
– Voice	**485**	498	501	**-3%**
Market share [6]				
– Broadband	**34.4%**	35.0%	35.5%	**-1.1pp**
– Voice	**22.2%**	22.4%	22.2%	**-0pp**
Broadband churn rate [7]	**0.9%**	0.9%	0.8%	**+0.1pp**
Residential ARPU (Without TTT) [8]	**$191**	$190	$190	**+1%**
Residential ARPU (With TTT) [8]	**$189**	$183	$190	**-1%**
Mobile business				
Subscriptions *('000)*	**269**	275	272	**-1%**
Mobile ARPU [11]	**$108**	$107	$115	**-6%**
Residential customers *('000)*	**1,011**	1,019	1,017	**-1%**
Total full-time permanent Talents	**5,683**	5,929	5,861	**-3%**

Notes:

(1) EBITDA, service EBITDA, service EBITDA margin, Adjusted Free Cash Flow, Core 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 loss of extinguishment of senior notes and deferred tax recognised on unused tax losses.

(3) EBITDA means profit for the period plus finance costs, income tax charge, depreciation, amortisation of intangible assets (net of direct cost incurred in corresponding period), amortisation of customer acquisition and retention costs and less interest income. Service EBITDA means EBITDA excluding gross profit on product revenue.

(4) Service EBITDA margin means service EBITDA divided by service revenue, which is excluding product revenue.

(5) Adjusted Free Cash Flow means EBITDA less capital expenditure, customer acquisition and retention costs, net interest paid, income tax paid, premium paid on senior notes redemption, lease payments in relation to right-of-use assets, changes in working capital and other non-cash items. Working capital includes other non-current assets, inventories, trade receivables, finance lease receivables, other receivables, deposits and prepayments, contract assets, amounts due from joint ventures, amounts due to joint ventures, trade payables, contract liabilities and deposits received. 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. Core Adjusted Free Cash Flow means Adjusted Free Cash Flow excluding premium paid on senior notes redemption.

(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 2020 market data.

(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. "TTT" represents the campaign namely ToughTimesTogether, in which the Group offered one-month service fee waiver to its customers for the purpose of relieving the household financial burden caused by COVID-19.

(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 and technology solutions business (excluding revenue from IDD, Enterprise Solutions related product 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 the sum of: (i) number of enterprise telecom customers, as calculated by dividing the sum of enterprise telecom customers at the beginning of the period and the end of the period by two, and; (ii) the number of enterprise solutions customers, which represents the number of unique customers with billing transactions on technology solutions related services during the financial period. This metric may be distorted by the impact of certain particularly large contracts we have with enterprise customers.

(11) Mobile 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, which include all services revenue (excluding IDD and value added services), by the number of average residential mobile subscriptions and further dividing by the number of months in the relevant period. Average residential mobile 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 Mobile ARPU may differ from the industry definition of ARPU due to our tracking of revenue generated from all services subscribed by residential mobile subscribers. 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) Enterprise customers means total number of enterprise customers excluding IDD, product resell and mobile customers.

BUSINESS REVIEW

Despite the prolonged COVID-19 pandemic, the Group still managed to deliver solid operational and financial growth results in 1H2021. Through a series of mergers and acquisitions in 2019 and integrations afterward, the Group has evolved from a traditional telecom company in Hong Kong into a leading information and communications technology (ICT) provider across Asia. Our residential business has continued to show resilience with higher ARPU with low monthly churn rate. As a result, Group revenue and EBITDA, increased year-on-year by 40% and 2% to $6,230 million and $1,312 million while Core AFF increased year-on-year by 7% to $505 million.

- Enterprise Solutions revenue increased by 15% year-on-year to $2,616 million after consolidating six months of operating results of HKBN JOS in the current period. Due to the Group's new competitiveness, despite the prolonged COVID-19 pandemic, our business delivered growth in this difficult time with a stable number of enterprise customers at 105,000 by raising our enterprise ARPU from $2,775/month in 1H2020 to $3,028/month in 1H2021.

  Enterprise Solutions related product revenue increased year-on-year by 96% to $1,249 million, mainly contributed by six months of operating results of HKBN JOS in the current period.

  COVID-19 has posed significant challenges to small and medium enterprises, with many facing difficulties to survive this pandemic, which could be reflected in an increase in broadband churn rate and pressure on enterprise ARPU. To weather the storm with our enterprise customers and minimise the financial impact on the Group, we offered innovative solutions such as FixIT outsourcing IT service, remote cloud-based HR applications and e-Security to the market. We see these difficult times as an opportunity to assist the business transformation of enterprise customers, beyond merely selling connectivity services.

- Residential Solutions revenue slightly dropped by 2% year-on-year to $1,224 million, mainly contributed by the residual impact of the monthly fee waiver for COVID-19 relief in March 2020 and a drop in mobile services revenue. The COVID-19 impact has posed pressure on ARPU increment. Having said that, we see lower customer switching activity and higher upsell opportunities on our OTT and other services. Overall, Residential Solutions continued to show resilience during economic uncertainties.

  The Group also sought to enhance our customers' experiences by investing in our digital platforms, which will facilitate us to serve our one million billing relationships more efficiently. As always, the Group will continue to extend our integrated multi-play price strategy to deliver unprecedented household savings and service convenience to disrupt the legacy broadband, fixed-voice, content and mobile standalone segments.

- Other product revenue increased by 288% to $1,141 million, mainly represented by the sales of smartphone products with enhanced features.

Network costs and costs of sales increased by 76% year-on-year to $3,926 million mainly due to consolidating six months of operating results of HKBN JOS and organic business growth during the period. Cost of inventories increased by 163% to $2,154 million mainly due to the six months operating results of HKBN JOS, and the aforementioned increased sales of smartphone products. Network and other costs excluding the cost of inventories increased by 26% year-on-year from $1,409 million to $1,772 million, which was mainly caused by the increase in IDD cost.

Other operating expenses slightly increased by 1% year-on-year from $1,882 million to $1,892 million, which was the combined effects of (i) increase in Talent costs by $8 million due to consolidating six months of operating results of HKBN JOS; (ii) increase in recognition of loss allowance in trade receivables and contract assets by $35 million caused by increase of expected credit loss rate adopted by the Group due to struggling economic conditions; and (iii) increase in subscription and license fees by $17 million, partly offset by a decrease in advertising and marketing expenses by $41 million. During the period, we have applied for various employment relief subsidies offered by governments in the regions we operate in and have substantially passed through these subsidies to our eligible Talents.

Finance costs increased by 14% year-on-year from $286 million to $325 million. It was mainly caused by the increase in loss on extinguishment of senior notes by $102 million, partly offset by the decrease of senior notes interest by $77 million, which are the impacts of the full early redemption of the senior notes in November 2020 versus their natural expiry of November 2022. The average finance costs calculated as the interest and coupon charges over the average borrowing balance was 3.1% (1H2020: 4.6%).

Income tax changed from tax credit of $52 million to tax charge of $42 million which was mainly due to the decrease in deferred tax recognised on unused tax loss by $76 million.

As the result of the aforementioned factors, profit attributable to equity shareholders decreased by 63% to $49 million.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets (net of deferred tax credit), and non-recurring items, increased by 12% year-on-year to $385 million. This was mainly contributed by the combined operating performance of the enlarged Group.

Reported EBITDA increased by 2% year-on-year from $1,283 million to $1,312 million, mainly contributed by smooth integrations with WTT and HKBN JOS.

Service EBITDA, which excluded the gross profits on Enterprise Solutions related products and other products, dropped by 8% year-on-year from $1,171 million to $1,078 million. It was mainly caused by the decrease in service gross profits by $51 million, in addition to the increase in recognition of loss allowance in trade receivables and contract assets by $35 million and increase in subscription and license fees by $17 million. Service EBITDA margin also decreased by 5.1 percentage points from 33.2% to 28.1%, mainly caused by consolidating six months of operating results of HKBN JOS, which had a much lower margin contribution, in addition of the aforementioned increase of other operating expenses.

AFF dropped by 11% year-on-year to $391 million mainly due to the premium paid on senior notes redemption of $114 million. Core AFF, which is excluding this premium paid, increased by 7% year-on-year to $505 million, mainly due to better working capital management.

OUTLOOK

The integrations with WTT and HKBN JOS have greatly enhanced the combined Group's capabilities, in terms of extended customer reach, far wider service offerings, thereby empowering the Group to differentiate our offerings in the enterprise space. As both businesses are highly complementary, we are confident that the combined organisation will 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 relationships by upselling more services by collaborating with new partnerships through our well established digital platforms. We will drive sustainable growth in revenue, EBITDA and AFF through the following initiatives:

— Continue to foster Co-Ownership culture to align risks and rewards of our Talents with our key stakeholders;

— Continue to invest in a series of telecom and technology solutions and initiatives such as Barter & Bundle, Transformation as a Services (TaaS), digital platforms and e-commerce to further penetrate the enterprise and residential markets, in turn, sharing a larger wallet of spending. Since the official launch in November 2020, HOME+ managed to achieve a solid result after around four months of operations. We are now collaborating with more than 500 merchants & brands and offering around 10,000 SKUs to our customers. Average daily sales increased from around 100 orders/day in November 2020 to around 700 orders/day in February 2021. During the period, we achieved highest daily sales rate of around 2,000 orders/day. We believe that HOME+ will be the key component of our infinite-play services to drive ARPU growth. HOME+ is a joint venture investment and the financial impact to the Group's operating results was minimal during 1H2021. As at 28 February 2021, the Group had a capital commitment of $40 million in HOME+ related joint venture;

— Transform our enterprise business from pure sales of products & services to relationship management, thinking and acting from our customers' perspective and solve their business problems;

— Expand our quad-play bundle plans to infinite-play to drive ARPU and subscription growth and disrupt the legacy broadband, fixed-voice, multimedia content and mobile standalone services; and

— To further lower finance costs by refinancing relatively expensive bank borrowings and deleverage to around 3.5x net debt to EBITDA ratio to enjoy a better interest rate grid of existing banking facilities.

LIQUIDITY AND CAPITAL RESOURCES

The Group has entered into facility agreements with various international banks for a term loan of $5,500 million and $5,000 million for a period of five years on 13 November 2020 and 31 March 2021, respectively. These facilities were used to refinance the Group's senior note and other indebtedness and for working capital purpose. These facilities bear interest at HIBOR plus 1.5% under current Group's net debt to EBITDA ratio as computed in accordance with these facilities, which was approximately 4.4x as at 28 February 2021.

The average weighted maturity of the Group's borrowings shall increase from 3.3 years as at 28 February 2021 (31 August 2020: 2.3 years) to 4.6 years after the completion of the refinancing.

As at 28 February 2021, the Group had total cash and cash equivalents of $1,232 million (31 August 2020: $676 million) and gross debt of $11,993 million (31 August 2020: $10,487 million, excluding lease liabilities of $680 million), which led to a net debt position of $10,761 million (31 August 2020: $9,811 million). Lease liabilities of $576 million was included as debt as at 28 February 2021 in accordance with the aforementioned facilities. The Group's gearing ratio, which was expressed as a ratio of the gross debt over total equity, was 2.0x as at 28 February 2021 (31 August 2020: 1.6x).

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 28 February 2021 and 31 August 2020. As at 28 February 2021, the Group had an undrawn revolving credit facilities of $1,830 million (31 August 2020: $1,840 million).

Under the liquidity and capital resources condition as at 28 February 2021, 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 currency and interest rate risk arising from non-Hong Kong dollar denominated assets/liabilities and the variable interest rates of the debt instruments and facilities by entering into currency forward and interest-rate swaps, respectively. The Group 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 a currency forward to buy USD at 7.778 in the principal amount of US$621 million with an international financial institution that matured on 30 November 2020. Benefiting from hedging arrangement, the Group substantially fixed the USD/HKD exchange rate until maturity of the instrument.

The Group also entered into an interest-rate swap arrangement in the principal amount of $3,900 million with an international financial institution for a term of 2.6 years from 30 October 2020 to 31 May 2023. Benefiting from the hedging arrangement, the Group fixed the HIBOR interest rate exposure at 0.399% per annum.

The currency forward and the interest-rate swap arrangements are recognised initially at fair value and remeasured at the end of each reporting period. Neither of the financial instruments qualify for hedge accounting under HKFRS 9, *Financial instruments*, and therefore, it is accounted for as fair value through profit or loss and measured at fair value.

CHARGE ON GROUP ASSETS

As at 28 February 2021, the Group pledged assets to secure the other borrowings of $17 million (31 August 2020: $20 million).

CONTINGENT LIABILITIES

As at 28 February 2021, the Group had total contingent liabilities of $251 million (31 August 2020: $140 million) in respect of bank guarantees provided to suppliers and customers and utility vendors in lieu of payment of utility deposits. The increase of $111 million was mainly due to increased of performance guarantee issued to the Group's suppliers and customers.

EXCHANGE RATES

All 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 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 HKD and 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.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During 1H2021, the Group did not make any significant investments, acquisitions or disposals in relation to its subsidiaries and associated companies.

TALENT REMUNERATION

As at 28 February 2021, the Group had 5,683 permanent full-time Talents (31 August 2020: 5,929 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.

RESTRICTED SHARE UNIT SCHEMES

To attract, retain and motivate skilled and experienced Talents, the Company adopted three Co-Ownership plans, namely Co-Ownership Plan II, Co-Ownership Plan III (was terminated and replaced by Co-Ownership Plan III Plus)* and Co-Ownership Plan III Plus on 21 February 2015, 27 December 2017 and 4 September 2019 respectively. Co-Ownership is a powerful expression of the commitment and belief our Talents have in the Group. Unlike the more traditional approach of giving stock options to a very limited group of senior executives, the Company's Co-Ownership is open to all supervisors and above level Talents (approximately 37% of the Group's total Talent base), spanning the Group's operations across Hong Kong and China.

* *By reasons of (i) the occurrence of WTT Merger and that the aspirational target of the adjusted available cash per share for distribution was different for the enlarged group after the WTT Merger and (ii) no grant of restricted share unit was made under the plan since its adoption, on 21 June 2019, the Board resolved to terminate the Co-Ownership Plan III, and to adopt the Co-Ownership Plan III Plus as a replacement.*

Co-Ownership Plan II

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

The total number of shares that may underlie the RSUs granted pursuant to the Co-Ownership Plan II shall be (i) 10% of the shares in issue on 12 March 2015 (the "**Listing Date**"), the date on which the Company was listed on The Stock Exchange 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.

On Talents' own volition, they invested their personal savings in the amount of between two to twelve months of salary to acquire the Company's shares at full market price. The shares are then matched with free shares at a certain ratio vested over three years.

Details of movements of the Co-Ownership Plan II during 1H2021 are as follows:

		Number of RSUs							
								To be vested on 30 January/26 February (As at 28 February 2021)	
Participants	Date of grant	Granted	As at 1 September 2020	Granted during 1H2021	Forfeited during 1H2021	Vested during 1H2021	As at 28 February 2021	2021	2022
Other Participants	30 January 2019	329,330	200,378	–	30,854	56,488	113,036	–	113,036
Other Participants	26 February 2019	126,410	94,819	–	9,052	28,575	57,192	–	57,192
Total		**455,740**	**295,197**	**–**	**39,906**	**85,063**	**170,228**	**–**	**170,228**

Co-Ownership Plan III Plus

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

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

Additionally, Co-Ownership Plan III Plus also contains a Corporate Social Investment element whereby the HKBN Talent CSI Fund Limited (the "**Charitable Fund**") is included as a participant in the scheme. On 27 February 2020, the Executive Directors of the Company donated a total of 4,000,000 shares to the Charitable Fund. With their contributions to the Charitable Fund, the Co-Ownership Plan III Plus would reserve RSUs to be contributed to the Charitable Fund with respect to the 4,000,000 shares donated by the Executive Directors, and such RSUs will entitle the Charitable Fund to receive not more than 5,320,000 awarded shares under the terms of the scheme. Talents may also, at their own discretion, make contributions to the Charitable Fund by directing the plan trustee to transfer any part of their award shares receivable upon the vesting of the RSUs to the Charitable Fund. The Company considers that this charitable element of the scheme would support the Company's core purpose: "Make our Home a Better Place to Live".

Details of the share purchase movements under the Co-Ownership Plan III Plus during 1H2021 are as follows:

Batch of purchase	Number of Shares purchased	Number of shares purchased to be forfeited during 1H2021 (i.e. purchased shares returned to Bad Leavers*)	Number of shares under Co-Ownership Plan III Plus as at 28 February 2021	Approximate percentage of the issued share capital of the Company as at 28 February 2021	Approximate percentage of Shares purchased under the Scheme Mandate Limit utilised as at 28 February 2021
1st Batch Purchase (February 2020)					
Executive Directors of the Company:					
– Mr. Chu Kwong YEUNG	848,002	–	848,002	0.065%	2.155%
– Mr. Ni Quiaque LAI	556,007	–	556,007	0.042%	1.413%
Directors of the Company's subsidiaries	1,227,976	–	1,227,976	0.094%	3.121%
Other participants	18,210,868	1,554,803	16,656,065	1.270%	42.330%
2nd Batch Purchase (August 2020)					
Other participants	554,377	22,023	532,354	0.041%	1.353%
3rd Batch Purchase (February 2021)					
Other participants	122,092	–	122,092	0.009%	0.310%
Total	**21,519,322**	**1,576,826**	**19,942,496**	**1.521%**	**50.682%**

* *Please refer to the circular of the Company dated 29 July 2019 for the definition of Bad Leavers.*

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 39 cents (29 February 2020: 37 cents) per share for 1H2021 to the shareholders whose names appear on the register of members of the Company on Monday, 17 May 2021. The interim dividend will be payable in cash on Wednesday, 26 May 2021.

The dividend policy of the Company is to pay dividends in an amount of not less than 90% of the AFF with an intention to pay 100% of the AFF in respect of the relevant year/period, after adjusting for potential debt repayment, if required. The Company has recommended to pay above this range at 148% (including distribution to Vendor Loan Notes) for this interim period in order to normalize the premium paid on senior notes redemption and the annual tax payments in 1H2021 over the whole financial year.

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 $65,255,663 based on the 39 cents interim dividend per ordinary share declared by the Company for the six months ended on 28 February 2021, as if the holders of the Vendor Loan Notes were holders of 167,322,212 ordinary shares in the Company as at the record date for such final dividend. Such cash amount will be paid by the Company to the holders of Vendor Loan Notes on 26 May 2021, being the date on which the 2021 interim dividend will be paid by the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 13 May 2021 to Monday, 17 May 2021, 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, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 12 May 2021 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 1H2021, 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 1H2021, 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 1H2021 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 1H2021 except for the following deviation:

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

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

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 1H2021.

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 1H2021 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, 21 April 2021

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

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

Non-executive Directors
Ms. Suyi KIM
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

UNAUDITED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2021

		Six months ended	
		28 February	29 February
		2021	2020
	Note	***$'000***	*$'000*
Revenue	*3*	**6,229,584**	4,457,282
Other net income	*4(a)*	**5,205**	19,013
Network costs and costs of sales		**(3,926,277)**	(2,226,664)
Other operating expenses	*4(b)*	**(1,892,206)**	(1,881,850)
Finance costs	*4(d)*	**(325,496)**	(286,258)
Share of losses of joint ventures		**(272)**	(1,569)
Profit before taxation	*4*	**90,538**	79,954
Income tax (charge)/credit	*5*	**(41,976)**	51,630
Profit for the period		**48,562**	131,584
Attributable to:			
Equity shareholders of the Company		**48,562**	132,239
Non-controlling interests		**–**	(655)
Profit for the period		**48,562**	131,584
Earnings per share			
Basic	*6*	**3.7 cents**	10.1 cents
Diluted	*6*	**3.3 cents**	8.9 cents

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2021

	Six months ended	
	28 February	29 February
	2021	2020
	$'000	*$'000*
Profit for the period	**48,562**	131,584
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	**9,634**	4,368
Other comprehensive income for the period	**58,196**	135,952
Attributable to:		
Equity shareholders of the Company	**58,196**	136,635
Non-controlling interests	**–**	(683)
Total comprehensive income for the period	**58,196**	135,952

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 28 FEBRUARY 2021

	Note	**At 28 February 2021 *$'000***	At 31 August 2020 *$'000*
Non-current assets			
Goodwill		**9,016,507**	9,016,507
Intangible assets		**3,907,695**	4,200,644
Property, plant and equipment		**3,960,959**	4,112,260
Investment properties		**202,847**	206,800
Right-of-use assets		**794,206**	886,709
Customer acquisition and retention costs		**577,105**	595,149
Interest in an associate		**4,790**	4,438
Interest in joint ventures		**9,115**	9,387
Deferred tax assets		**68,924**	91,258
Finance lease receivables		**3,435**	6,534
Other non-current assets		**78,476**	81,012
		18,624,059	19,210,698
Current assets			
Inventories		**133,443**	154,641
Trade receivables	*8*	**1,253,580**	1,356,935
Other receivables, deposits and prepayments		**361,667**	359,458
Finance lease receivables		**2,222**	1,253
Contract assets		**275,287**	303,839
Amount due from joint ventures		**35,481**	19,600
Tax recoverable		**52,621**	717
Financial assets at fair value through profit or loss		**–**	40,517
Cash and cash equivalents		**1,231,933**	676,457
		3,346,234	2,913,417
Current liabilities			
Trade payables	*9*	**1,060,020**	830,805
Other payables and accrued charges – current portion		**910,327**	1,240,907
Contract liabilities – current portion		**603,511**	706,827
Deposits received		**80,675**	76,049
Obligations under granting of rights – current portion		**9,024**	9,024
Amounts due to an associate		**4,790**	4,438
Amounts due to joint ventures		**10,750**	10,750
Bank and other borrowings		**1,415,580**	1,310,667
Lease liabilities – current portion		**204,886**	234,258
Tax payable		**126,868**	199,521
Other current liabilities		**12,689**	8,704
		4,439,120	4,631,950
Net current liabilities		**(1,092,886)**	(1,718,533)
Total assets less current liabilities		**17,531,173**	17,492,165

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 28 FEBRUARY 2021

	At 28 February 2021 $'000	At 31 August 2020 $'000
Non-current liabilities		
Other payables and accrued charges – long-term portion	**58,664**	87,677
Contract liabilities – long-term portion	**193,824**	219,939
Obligations under granting of rights – long-term portion	**2,259**	6,771
Deferred tax liabilities	**953,307**	1,033,447
Lease liabilities – long-term portion	**371,078**	445,804
Provision for reinstatement costs	**65,666**	67,320
Bank and other borrowings	**9,885,552**	5,018,368
Senior notes	**–**	4,101,847
Other non-current liabilities	**43,849**	50,493
	11,574,199	11,031,666
NET ASSETS	**5,956,974**	6,460,499
CAPITAL AND RESERVES		
Share capital	**132**	132
Reserves	**5,956,842**	6,460,367
Total equity attributable to equity shareholders of the Company	**5,956,974**	6,460,499
Non-controlling interests	**–**	–
TOTAL EQUITY	**5,956,974**	6,460,499

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 2021 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 issue on 21 April 2021.

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 2020, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 August 2020. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

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

The financial information relating to the financial year ended 31 August 2020 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.

Going concern assumption

As at 28 February 2021, the current liabilities of the Group exceeded their current assets by approximately $1,093 million. Included in the current liabilities were current portion of contract liabilities of $604 million recognised under Hong Kong Financial Reporting Standard ("**HKFRS**") 15 which will gradually reduce over the contract terms through the satisfaction of performance obligations and current portion of lease liabilities of $205 million recognised under HKFRS 16 which is the amount related to leases that has a lease term more than 12 months and with a corresponding asset recorded in the non-current assets as right-of-use assets. Management of the Group anticipates the net cash inflows from their operations, together with the ability to draw down from available bank loan facilities, would be sufficient to enable the Group to meet their liabilities as and when they fall due. Accordingly, this unaudited condensed consolidated interim financial information has been prepared on a going concern basis.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*

- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

The principal activities of the Group are (i) provision of fixed telecommunications network services, international telecommunications services and mobile services to residential and enterprise customers in Hong Kong, (ii) system integration services, (iii) product sales and (iv) marketing and distribution of computer hardware and software, telecommunication products, office automation products and the provision of related services.

(a) Disaggregation of revenue

Revenue represents revenue from (i) fixed telecommunications network services, international telecommunications services and mobile services to residential and enterprise customers in Hong Kong, (ii) system integration services, (iii) product sales and (iv) marketing and distribution of computer hardware and software, telecommunication products, office automation products and the provision of related services.

Disaggregation of revenue from contracts with customers by major categories is as follows:

	Six months ended	
	28 February 2021	29 February 2020
	$'000	*$'000*
Disaggregated by major products or service lines:		
Fixed telecommunications network services	**2,373,623**	2,224,004
International telecommunications services	**715,216**	598,931
Other services	**241,648**	427,920
Fees from provision of telecommunications services	**3,330,487**	3,250,855
Product revenue	**2,389,555**	930,066
Technology solution and consultancy services	**480,192**	260,668
Revenue from contracts with customers within the scope of HKFRS 15	**6,200,234**	4,441,589
Rental income from leasing business	**29,350**	15,693
Total	**6,229,584**	4,457,282
Disaggregated by major categories:		
Residential Solutions revenue	**1,224,434**	1,251,575
Enterprise Solutions revenue	**2,615,595**	2,275,641
Enterprise Solutions related product revenue	**1,248,523**	636,087
Other product revenue	**1,141,032**	293,979
	6,229,584	4,457,282
Disaggregated by geographical location of customers:		
Hong Kong	**5,502,883**	4,086,430
China	**311,749**	211,151
Singapore	**160,644**	114,270
Other territories	**254,308**	45,431
	6,229,584	4,457,282

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

Operating segments, and the amounts of each segment item reported in the interim financial report, 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 by geographical location. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments following the acquisition of Jardine OneSolution Holdings (C.I.) Limited, Adura Hong Kong Limited and ADURA CYBER SECURITY SERVICES PTE. LTD. on 13 December 2019. No operating segments have been aggregated to form the following reportable segments.

(i) Telecom and technology solutions (Hong Kong)

Include provision of fixed telecommunications network services, international telecommunications services, mobile services to residential and enterprise customers and technology-related services in Hong Kong.

(ii) Telecom and technology solutions (non-Hong Kong)

Include the provision of telecom and technology solutions and consultancy services in Mainland China, Macau, Singapore and Malaysia.

The Group's senior executive management monitors the results attributable to each reportable segment on the following basis:

The segment revenue of the Group is based on geographical location of customers. Income and expenses are allocated to the reportable segments with reference to revenue generated by those segments and expenses incurred by those segments or which otherwise arisen from the depreciation or amortisation of assets attributable to those segments. The inter-segment transactions are conducted on normal commercial terms and are priced with reference to prevailing market prices and in the ordinary course of business.

3 REVENUE AND SEGMENT REPORTING (Continued)

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

For the six months ended	Telecom and technology solutions (Hong Kong) 28 February 2021 $'000	Telecom and technology solutions (Hong Kong) 29 February 2020 $'000	Telecom and technology solutions (non-Hong Kong) 28 February 2021 $'000	Telecom and technology solutions (non-Hong Kong) 29 February 2020 $'000	Total 28 February 2021 $'000	Total 29 February 2020 $'000
Disaggregated by timing of revenue recognition						
Point in time	1,900,673	693,950	488,882	236,116	2,389,555	930,066
Over time	3,602,210	3,264,949	237,819	262,267	3,840,029	3,527,216
Revenue from external customers	**5,502,883**	**3,958,899**	**726,701**	**498,383**	**6,229,584**	**4,457,282**
Inter-segment revenue	17,149	–	171,983	133,298	189,132	133,298
Reportable segment revenue	**5,520,032**	**3,958,899**	**898,684**	**631,681**	**6,418,716**	**4,590,580**
Reportable segment profit (EBITDA)	**1,196,213**	**1,231,844**	**115,604**	**51,515**	**1,311,817**	**1,283,359**

The performance measure used for reporting segment profit is "EBITDA" i.e. "earnings before finance costs, interest income, income tax, depreciation, amortisation of intangibles assets (net of direct cost incurred), amortisation of customer acquisition and retention costs and transaction costs in connection with business combination".

(c) Reconciliation between segment profit and profit before taxation for the period

	Six months ended **28 February 2021** ***$'000***	Six months ended 29 February 2020 *$'000*
Reportable segment profit derived from Group's external customers	**1,311,817**	1,283,359
Finance costs	**(325,496)**	(286,258)
Interest income	**1,271**	1,532
Depreciation	**(507,518)**	(466,265)
Amortisation of intangible assets	**(241,497)**	(300,641)
Amortisation of customer acquisition and retention costs	**(148,039)**	(145,204)
Transaction costs in connection with business combination	**–**	(6,569)
Consolidated profit before taxation	**90,538**	79,954

4 PROFIT BEFORE TAXATION

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

	Six months ended 28 February 2021 $'000	29 February 2020 $'000
(a) Other net income		
Interest income	**(1,271)**	(1,532)
Net foreign exchange loss/(gain)	**11,381**	(2,807)
Amortisation of obligations under granting of rights	**(4,512)**	(4,512)
Change in fair value of contingent consideration	**–**	815
Fair value loss/(gain) on currency forward	**309**	(1,065)
Discounts on early settlement to suppliers	**(240)**	–
Other income	**(10,872)**	(9,912)
	(5,205)	(19,013)
(b) Other operating expenses		
Advertising and marketing expenses	**172,514**	213,829
Depreciation		
– Property, plant and equipment	**373,129**	361,770
– Investment properties	**3,953**	4,005
– Right-of-use assets	**102,733**	84,114
Loss/(gain) on disposal of property, plant and equipment, net	**418**	(2,853)
Gain on disposal of right-of-use assets, net	**(148)**	–
Recognition of loss allowance in trade receivables and contract assets	**43,818**	8,751
Talents costs (note 4(c))	**516,565**	508,649
Amortisation of intangible assets	**241,497**	296,930
Amortisation of customer acquisition and retention costs	**148,039**	145,204
Transactions costs in connection with business combination	**–**	6,569
Others	**289,688**	254,882
– Office rental and utilities	**40,054**	31,953
– Site expenses	**45,623**	43,983
– Bank handling charges	**22,022**	19,624
– Maintenance	**64,717**	65,972
– Subscription and license fees	**52,578**	35,171
– Legal and professional fees	**17,787**	16,774
– Printing, telecommunication and logistics expenses	**25,815**	12,745
– Others	**21,092**	28,660
	1,892,206	1,881,850

4 PROFIT BEFORE TAXATION (Continued)

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

(c) Talents costs

	Six months ended 28 February 2021 $'000	Six months ended 29 February 2020 $'000
Salaries, wages and other benefits	**868,444**	802,638
Contributions to defined contribution retirement plan	**59,933**	49,307
Equity-settled share-based payment expenses	**269**	1,093
Cash-settled share-based payment expenses	**70**	1,875
	928,716	854,913
Less: Talent costs capitalised as property, plant and equipment	**(29,492)**	(29,506)
Talent costs included in advertising and marketing expenses and Amortisation of customer acquisition and retention costs	**(197,804)**	(223,687)
	701,420	601,720
Talent costs included in other operating expenses	**516,565**	508,649
Talent costs included in network costs and costs of sales	**184,855**	93,071
	701,420	601,720

During the period ended 28 February 2021, the Group successfully applied for talent-related funding support from the Hong Kong SAR Government, the Macau SAR Government and all regions/countries where the Group operates ("**the Funds**") of $104,356,000, of which $85,237,000 was passed on to the talents. The Funds is to for providing time-limited financial support to employers to retain their employees with the operating pressure caused by the novel coronavirus epidemic.

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

(d) Finance costs

	Six months ended 28 February 2021 $'000	Six months ended 29 February 2020 $'000
Interest and finance charges on bank loans	**95,211**	96,141
Interest on other borrowings	**528**	–
Interest and finance charges on senior notes	**56,640**	133,495
Interest on interest-rate swap, net	**2,340**	(1,105)
Fair value loss on the interest-rate swap	**11,903**	2,312
Interest on lease liabilities	**12,634**	12,042
Interest on other liabilities	**777**	–
Loss on extinguishment of senior notes	**145,463**	43,373
	325,496	286,258

4 PROFIT BEFORE TAXATION (Continued)

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

(e) Other items

	Six months ended 28 February 2021 $'000	Six months ended 29 February 2020 $'000
Amortisation of intangible assets	**293,003**	355,731
Depreciation:		
– Property, plant and equipment	**373,129**	361,770
– Investment properties	**3,953**	4,005
– Right-of-use assets	**130,436**	100,490
Rental charges on telecommunications facilities and computer equipment	**176,635**	154,949
Expenses relating to short-term leases and leases of low-value assets	**7,102**	6,004
Recognition of loss allowance on trade receivables and contract assets	**43,818**	8,751
Research and development costs	**19,047**	10,778
Cost of inventories	**2,153,892**	817,748
Write-down of inventories	**1,674**	–

5 INCOME TAX (CHARGE)/CREDIT

	Six months ended 28 February 2021 $'000	Six months ended 29 February 2020 $'000
Current tax – Hong Kong Profits Tax	**(92,964)**	(100,788)
Current tax – Outside Hong Kong	**(6,651)**	(4,084)
Deferred tax	**57,639**	156,502
	(41,976)	51,630

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% to the six months ended 28 February 2021 (six months ended 29 February 2020: 16.5%), except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first $2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2020.

Taxation for overseas subsidiaries is similarly calculated using the annual effective rates of taxation that are expected to be applicable in the relevant countries.

6 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 $48,562,000 (six months ended 29 February 2020: $132,239,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,310,674,671 ordinary shares (six months ended 29 February 2020: 1,310,419,855 ordinary shares).

	Six months ended	
	28 February 2021	29 February 2020
	'000	*'000*
Issued ordinary shares at 1 September 2019/2020	**1,311,599**	1,311,599
Less: shares held for the Co-Ownership Plan II	**(5,667)**	(5,667)
Add: effect of the Co-Ownership Plan II RSUs vested	**4,743**	4,488
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,310,675**	1,310,420

(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 $48,562,000 (six months ended 29 February 2020: $132,239,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II after adjusting for the dilutive effect of the Company's Co-Ownership Plan II and the effect of Vendor Loan Notes, calculated as follows:

	Six months ended	
	28 February 2021	29 February 2020
	'000	*'000*
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,310,675**	1,310,420
Add: effect of the Co-Ownership Plan II	**411**	267
Add: effect of the Vendor Loan Notes	**167,322**	167,322
Weighted average number of ordinary shares (diluted)	**1,478,408**	1,478,009

7 BUSINESS COMBINATION AND ACQUISITION OF A SUBSIDIARY

(a) Business combination during the period ended 29 February 2020

Pursuant to the share purchase agreement dated 23 August 2019, HKBNGL acquired 100% equity interests in Jardine OneSolution Holdings (C.I.) Limited, Adura Hong Kong Limited and ADURA CYBER SECURITY SERVICES PTE. LTD., a company incorporated in the Cayman Islands, Hong Kong and Singapore respectively (together referred as "**HKBN JOS**") from JTH (BVI) Limited (the "**JOS Acquisition**"). The consideration of the JOS Acquisition was settled by cash of US$50,000,000 (equivalent to $391,500,000).

HKBN JOS is principally engaged in IT-related businesses including provision of IT system integration, IT solutions and IT consultancy services with a focus on the enterprise segment. The JOS Acquisition was completed on 13 December 2019.

7 BUSINESS COMBINATION AND ACQUISITION OF A SUBSIDIARY (Continued)

(a) Business combination during the period ended 29 February 2020 (Continued)

The goodwill reflects synergies expected from leveraging the Group's existing enterprise customer base, Talents and culture to improve overall profitability by enhancing its service offering, reducing overlapping costs and delivering greater value to customers. None of the goodwill is expected to be deductible for tax purposes.

The JOS Acquisition had the following effect on the Group's assets and liabilities on 13 December 2019, the completion date of the JOS Acquisition:

	$'000
Intangible assets	198,566
Property, plant and equipment	45,447
Right-of-use assets	199,704
Deferred tax assets	13,313
Inventories	125,993
Contract assets	50,157
Trade receivables	750,265
Other receivables, deposits and prepayments	150,191
Finance lease receivables	2,596
Tax recoverable	717
Cash and cash equivalents	68,433
Trade payables	(322,508)
Other payables and accrued charges	(268,483)
Provision for reinstatement costs	(14,899)
Contingent consideration	(4,372)
Contract liabilities	(297,189)
Bank borrowings	(267,464)
Tax payables	(2,615)
Lease liabilities	(237,112)
Deferred tax liabilities	(29,112)
Fair value of net assets acquired	161,628
Non-controlling interests	1,684
	163,312
Goodwill	228,188
Total consideration	391,500
Cash consideration paid	391,500
Cash and cash equivalents acquired	(68,433)
Net cash outflow in respect of the JOS Acquisition during the period ended 29 February 2020	323,067

Acquisition-related costs

Acquisition-related costs of approximately $6,569,000 and $9,863,000 were included in other operating expenses in the consolidated income statement for the period ended 29 February 2020 and year ended 31 August 2019.

7 BUSINESS COMBINATION AND ACQUISITION OF A SUBSIDIARY (Continued)

(a) Business combination during the period ended 29 February 2020 (Continued)

Revenue and profit contribution

The revenue and profit after taxation of $836,204,000 and $16,392,000 respectively included in the consolidated income statement were contributed by HKBN JOS from the date of the JOS Acquisition to 29 February 2020.

No separate sets of financial information for HKBN JOS were prepared for the period from 1 September 2019 to the date of the JOS Acquisition. As a result, it is impracticable for the Group to disclose the amounts of revenue and profit or loss after taxation of HKBN JOS as if the acquisition date for the business combination that occurred during the period had been as of 1 September 2019.

8 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 2021 ***$'000***	At 31 August 2020 *$'000*
Within 30 days	**339,579**	369,211
31 to 60 days	**317,235**	360,870
61 to 90 days	**189,416**	197,973
Over 90 days	**407,350**	428,881
	1,253,580	1,356,935

The majority of the Group's trade receivables are due within 30 to 90 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.

9 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 2021 ***$'000***	At 31 August 2020 *$'000*
Within 30 days	**487,713**	310,318
31 to 60 days	**176,075**	139,566
61 to 90 days	**131,258**	137,134
Over 90 days	**264,974**	243,787
	1,060,020	830,805

10 DIVIDENDS

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

	Six months ended	
	28 February	29 February
	2021	2020
	$'000	*$'000*
Interim dividend declared after the interim period of 39 cents per ordinary share (six months ended 29 February 2020: 37 cents per ordinary share) *(Note)*	**511,524**	485,292

Note: The amount of 2021 proposed interim dividend is based on the 1,311,599,356 (2020: 1,311,599,356) ordinary shares in issue as at the date of this interim 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	29 February
	2021	2020
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 38 cents per ordinary share (six months ended 29 February 2020: 36 cents per ordinary share)	**498,408**	472,176

11 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 31 March 2021, HKBN Group Limited (a wholly owned subsidiary of the Company), as the borrower (the "**Borrower**"), has entered into a facility agreement with Bank of China (Hong Kong) Limited, Hang Seng Bank Limited, China CITIC Bank International Limited, China Construction Bank (Asia) Corporation Limited and Chiyu Banking Corporation Limited, who are the mandated lead arrangers, and as bookrunners, and Bank of China (Hong Kong) Limited as facility agent (the "**Facility Agreement**"). Pursuant to the Facility Agreement, a term loan facility of $5,000,000,000 was provided to the Borrower for a period of five years and fully repayable on 8 April 2026 (the "**Facility**"). The Facility was cross guaranteed by the Borrower, the Company, Hong Kong Broadband Network Limited, Metropolitan Light Company Limited, HKBN Enterprise Solutions Development Ltd, HKBN Enterprise Solutions Cayman Corp, HKBN Enterprise Solutions HK Limited and COL Limited. On 9 April 2021, the Facility was fully drawn to mainly refinance the existing $4,100,000,000 term loan and other existing bank borrowings of the Group.