**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 2022

*(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 (the "**Group**") for the six months ended 28 February 2022 ("**1H2022**"). These results were based on the unaudited consolidated interim financial report for 1H2022, which was 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**").

- Despite the challenging economic environment, our Revenue, EBITDA (Adjusted) and Adjusted Free Cash Flow ("**AFF**") continued to grow year-on-year at 9%, 1% and 94%, respectively, to $6,803 million, $1,320 million and $758 million; half-on-half compared to 2H2021, the growth in 1H2022 is more pronounced with 30%, 5%, 2%, respectively.

- Revenue increased by 9% year-on-year to $6,803 million, mainly driven by significant growth in smartphone sales and growth from Enterprise Solutions related product revenue. As a result, EBITDA (Adjusted) increased by 1% year-on-year to $1,320 million.

- The Board has recommended the payment of an interim dividend of 40 cents per share (1H2021: 39 cents per share), resulting in a 3% year-on-year increase.

## SHAREHOLDER LETTER

### Partnership+

Dear Fellow Shareholders,

At HKBN, our Legal Unfair Competitive Advantage (LUCA) is no longer the fibre network that we have been building since the mid 1990s, rather it is our incredible customer relationships with 1 million or 1-in-3 residential households, and ~110,000 enterprises or 1-in-2 active companies in Hong Kong. Our reach is extremely scalable in terms of the services that we can upsell to our customers beyond the traditional telecom connectivity services. In most industries, Customer Acquisition Cost (CAC) is a major expense item to do business, which typically ranges from a quarter to a third of revenues.

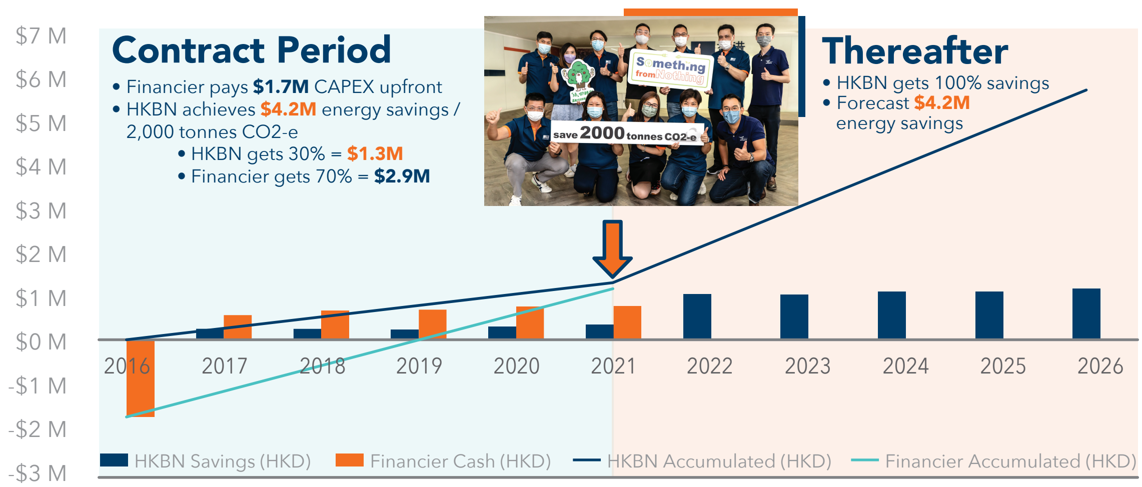
Metcalfe's Law is a concept used in computer networks and telecommunications to represent the value of the total network. Metcalfe's Law states that a network's impact is the square of the number of nodes in the network. We believe Metcalfe's Law applies to our Partnership+ approach. By getting partners to team up with HKBN, we bring them lower CAC through our substantial customer base. In this way, all parties will benefit, especially our customers who can enjoy a far wider range of services at far lower prices, our partners will have a far more efficient channel to market — and for us, the more services our customers use, the far more loyal they will be to us.

In Residential, we are the exclusive broadband service provider for Disney+. Ever since the service launched in November 2021, we have already secured about 140,000 customers who've benefitted from our Disney+ bundles. With our monthly billing reach of 1 million residential households and an average of 3.5 mobile SIMs per household, we have a warm base reach of 3.5 million mobile subscribers or 35% of the total 10 million postpaid mobile market. This makes us a perfect Mobile Virtual Network Operator (MVNO) partner to HTHKH "3 Hong Kong" mobile, for whom we are reselling its 5G services. Another key partnership for us is HOME+, our joint venture with major partners Dah Chong Hong and Kerry Logistics, which has seen a huge increase in business since the 5$^{th}$ wave of COVID-19 lockdowns. We offer our HOME+ partners amazing promotions such as our "Spend $1 Get $2" deal whereby every dollar spent at HOME+ or HKBN is doubled-up by being matched reciprocally. By working with partners, this is how we will transform our Residential business and further expand the scope of our Infinite-play strategy.

In Enterprise, we are partnering for unique collaborations or exclusive deals with a large number of multi-nationals such as Cisco, Microsoft, Apple, PwC DarkLab, Alibaba Cloud, AWS, UiPath, etc. We bring these big global names more direct sales channels in Hong Kong, mainland China (where we have 10 regional offices in major cities like Beijing, Shanghai, Guangzhou, Shenzhen and Macau), and in Singapore plus Malaysia via our jointly operated associates with StarHub. Our telecom services monthly Average Revenue Per User is $2,905 across our ~110,000 entire Enterprise customers base whereas system integration customers on average consume 10 times more comparing to standalone telecom service; this discrepancy shows inherent upside when we upsell system integration services and managed services to our telecom customer base. By working with partners, this is how we will transform our Enterprise business from traditional telecom services to Information and Communications Technologies (ICT).

Our key business approach is to "eat what we cook before we sell it", i.e. we experiment the recipe to perfect it internally before we sell it externally as a canned solution. With >$10 billion in gross revenue and >4,700 Talents, we enjoy the economies of scale that few of our customers can match. For example, in 2016, we pioneered our "Something from Nothing" ESG initiative to improve our electricity efficiency by upgrading our data centre air conditioning plant. Our preliminary assessment of the opportunity indicated a 6-year payback for the more efficient upgrade — which stalled our investment. However, our partnership with Energenz, to optimise technical design, and Blue Sky for the upfront funding, enabled us to upgrade our plant on a timely basis at no cost, no balance sheet impact and with limited risk and resource commitment, in exchange for a share of realised future electricity savings. Having learnt from this experience, we are now ready to help our customers in improving their ESG initiatives.

**Pay for Today's Facility Upgrade with Tomorrow's Energy Savings**
**$5.5M in Energy Savings with $0 Capex**




* Showcase in Trans Asia Centre

**Like Metcalfe's Law, the value of our Partnership+ approach can deliver exponential growth potential.**

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 2022 | 28 February 2021 | Change YoY |
|---|---|---|---|
| **Key financials** ***($'000)*** | | | |
| Revenue | **6,803,050** | 6,229,584 | +9% |
| – Enterprise Solutions | **2,290,870** | 2,615,595 | -12% |
| – Enterprise Solutions related product | **1,294,917** | 1,248,523 | +4% |
| – Residential Solutions | **1,224,398** | 1,224,434 | -0% |
| – Other product | **1,992,865** | 1,141,032 | +75% |
| Profit for the period | **304,330** | 48,562 | >100% |
| Adjusted Net Profit [1,2] | **479,790** | 385,016 | +25% |
| EBITDA (Adjusted)* [1,3] | **1,319,543** | 1,311,817 | +1% |
| Service EBITDA (Adjusted)* [1,3] | **1,118,968** | 1,077,828 | +4% |
| Service EBITDA margin (Adjusted)* [1,4] | **31.8%** | 28.1% | +3.7pp |
| Adjusted Free Cash Flow [1,5] | **757,750** | 391,457 | +94% |

Reconciliation of Adjusted Net Profit [1,2]

| | | | |
|---|---|---|---|
| **Profit for the period** | **304,330** | 48,562 | >100% |
| Amortisation of intangible assets | **209,153** | 241,497 | -13% |
| Deferred tax arising from amortisation of intangible assets | **(33,693)** | (39,000) | -14% |
| Loss on extinguishment of senior notes | **–** | 145,463 | -100% |
| Deferred tax recognised on unused tax losses | **–** | (11,506) | -100% |
| **Adjusted Net Profit** | **479,790** | 385,016 | +25% |

Reconciliation of EBITDA & Adjusted Free Cash Flow [1,3,5]

| | | | |
|---|---|---|---|
| **Profit for the period** | **304,330** | 48,562 | >100% |
| Finance costs | **106,420** | 325,496 | -67% |
| Interest income | **(1,535)** | (1,271) | +21% |
| Income tax charge | **80,357** | 41,976 | +91% |
| Depreciation (Adjusted)* | **470,530** | 507,518 | -7% |
| Amortisation of intangible assets (Adjusted)* | **210,783** | 241,497 | -13% |
| Amortisation of customer acquisition and retention costs | **148,658** | 148,039 | +0% |
| **EBITDA (Adjusted)*** | **1,319,543** | 1,311,817 | +1% |
| Capital expenditure | **(291,603)** | (325,604) | -10% |
| Net interest paid | **(98,435)** | (219,309) | -55% |
| Other non-cash items | **(4,300)** | (4,173) | +3% |
| Income tax paid | **(150,084)** | (223,375) | -33% |
| Customer acquisition and retention costs | **(125,710)** | (132,914) | -5% |
| Premium paid on senior notes redemption | **–** | (113,776) | -100% |
| Lease payments in relation to right-of-use assets | **(112,986)** | (152,693) | -26% |
| Changes in working capital | **221,325** | 251,484 | -12% |
| **Adjusted Free Cash Flow** | **757,750** | 391,457 | +94% |

* *Depreciation and amortisation of the Disposal Group was not recognised on consolidation level from 1 September 2021 to 3 January 2022 in the consolidated financial statements. The $15 million pro forma adjustment is to account for the depreciation and amortisation of the Disposal Group in order to reflect the true business performance of the Disposal Group up to the date of disposal.*

## KEY FINANCIAL AND OPERATIONAL SUMMARY (CONTINUED)

### Table 2: Operational highlights

| | For the six months ended | | | |
|---|---|---|---|---|
| | **28 February 2022** | 31 August 2021 | 28 February 2021 | **Change YoY** |
| **Enterprise business** | | | | |
| Commercial building coverage | **7,932** | 7,584 | 7,418 | +7% |
| Subscriptions *('000)* | | | | |
| – Broadband | **120** | 119 | 118 | +2% |
| – Voice | **421** | 423 | 434 | -3% |
| Market share [6] | | | | |
| – Broadband | **37.1%** | 36.9% | 36.7% | +0.4pp |
| – Voice | **24.3%** | 24.9% | 25.1% | -0.8pp |
| Enterprise customers *('000)* | **106** | 107 | 105 | +1% |
| Broadband churn rate [9] | **1.3%** | 1.5% | 1.3% | +0pp |
| Enterprise ARPU [10] | **$2,905** | $3,058 | $3,028 | -4% |
| **Residential business** | | | | |
| Fixed telecommunications network services business | | | | |
| Residential homes passed *('000)* | **2,489** | 2,466 | 2,438 | +2% |
| Subscriptions *('000)* | | | | |
| – Broadband | **889** | 886 | 886 | +0% |
| – Voice | **458** | 474 | 485 | -6% |
| Market share [6] | | | | |
| – Broadband | **33.8%** | 34.2% | 34.6% | -0.8pp |
| – Voice | **21.9%** | 22.1% | 22.2% | -0.3pp |
| Broadband churn rate [7] | **0.9%** | 0.9% | 0.9% | +0pp |
| Residential ARPU (Without TTT) [8] | **$187** | $190 | $191 | -2% |
| Residential ARPU (With TTT) [8] | **$187** | $189 | $189 | -1% |
| Mobile business | | | | |
| Subscriptions *('000)* | **243** | 254 | 269 | -10% |
| Mobile ARPU [11] | **$111** | $112 | $108 | +3% |
| Residential customers *('000)* | **983** | 997 | 1,011 | -3% |
| **Total full-time permanent Talents** | **4,700** | 5,218 | 5,683 | -17% |

*Notes:*

(1) EBITDA, service EBITDA, service 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).

(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 (including amount utilised for supply chain financing), 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.

(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 2021 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

In 1H2022, the COVID-19 pandemic continued to affect our daily lives and hinder the economy. Competition within the telecom industry continued to be intense as we adapted to this dynamic operating environment. The Group demonstrated its resilience amid these challenges and delivered a solid set of operational and financial results in 1H2022.

Having transformed our Enterprise business through the successful integration of prior acquisitions, a larger market presence and our expanded capabilities as the largest alternative telecom carrier in Hong Kong enables us to remain competitive relative to other standalone telecom or technology solutions providers in this tough environment.

On 3 January 2022, we 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.. The Disposal Group has ceased to be subsidiaries of the Company and has become 40%-owned associates of the Company. The Disposal Group is jointly operated by the two leading telecommunications and technology solutions companies in their respective regions, which unlock cross-border business opportunities and synergies through leveraging the strengths of the Group and StarHub Ltd. fostered by this deepened collaboration.

Under this tough market environment, our Residential business remained resilient. Service revenue was stable as we continued to execute our Infinite play strategy by expanding our consumer-centric high value-for-money services to our customers.

As a result, our Revenue, EBITDA (Adjusted), and AFF increased year-on-year by 9%, 1% and 94% to $6,803 million, $1,320 million and $758 million respectively.

- Enterprise Solutions revenue decreased year-on-year by $325 million, or 12%, to $2,291 million. This is mainly due to the decrease in international telecommunications services revenue, which comprised mainly of low margin wholesale IDD. In addition, the Disposal Group contributed four months in 1H2022 vs six months in 1H2021. Despite a gloomy economic outlook brought about by COVID-19, our business showed resilience in this difficult time as indicated by stable customer churn and the increase in broadband subscriptions and market share to 120,000 and 37.1% as at 31 December 2021 (based on the latest available OFCA statistics) respectively. Enterprise ARPU decreased from $3,028/month to $2,905/month mainly due to the lowered contribution from the Disposal Group during 1H2022.

  Enterprise Solutions related product revenue increased year-on-year by 4% to $1,295 million due to the increase in demand for hardware.

The COVID-19 pandemic has posed significant challenges to businesses in Hong Kong, and this has increased the demand on running their companies remotely, securely, and efficiently at affordable costs. This materialised as an opportunity for innovative solutions such as FixIT, e-Security and business application services which aimed to serve the needs of our large Enterprise customer base. We will strengthen the relationship with our customers and increase our market penetration in the upcoming economic rebound.

- Residential Solutions revenue remained stable at $1,224 million, despite intense market competition. Our Residential ARPU (Without TTT) fell slightly by 2% year-on-year to $187/month due to the aggressive tactical offer introduced at the initial launch of Disney+ OTT bundle, as well as intense market competition in general.

  Our monthly churn rate remained low at 0.9% and our subscriptions slightly increased to 889,000 in 1H2022. Our market share by broadband subscriptions remained stable at 33.8% as at 31 December 2021 (based on the latest available OFCA statistics).

  Our mobile business recorded growth on ARPU with 3% year-on-year increase to $111/month amid intense market competition. Mobile subscriptions have dropped to 243,000 but growth momentum has been resumed in recent months as we launched the best-in-town 5G mobile plan offers for both entry level and high usage level, with the aim to capture growth aggressively in the mobile segment.

  All in all, a continued expansion in our Infinite play offerings via HOME+ bundling, comprehensive Over-The-Top content and aggressive 5G offers shall be our biggest differentiator to other operators and the key driver of our growth in the near term.

- Other product revenue increased by 75% to $1,993 million, mainly represented by the sales of smartphone products that complement our mobile business.

Network costs and costs of sales increased year-on-year by $573 million, or 15%, to $4,500 million, mainly due to the cost of inventories increased by $933 million, or 43%, to $3,087 million led by an increase in sales of smartphone products and Enterprise Solutions related product. This has been offset by a decrease in cost of wholesale IDD.

Other operating expenses slightly decreased year-on-year by $52 million, or 3%, to $1,840 million, which is the combined effect of a decrease in Talent cost by $7 million, a decrease in depreciation by $25 million and a decrease in amortisation of intangible assets by $32 million, partly offset by an increase in recognition of loss allowance in trade receivables and contract assets by $16 million.

Finance cost decreased by 67% year-on-year from $325 million to $106 million. This was mainly caused by the increase in fair value gain on interest-rate swap by $48 million, the decrease in loss on extinguishment of senior notes by $145 million and the decrease of interest and finance charges on senior notes by $57 million, partly offset by the increase in interest and finance charge on bank loans by $31 million.

Income tax increased by 91% year-on-year from $42 million to $80 million in line with the increase in profit before tax.

As a result of the aforementioned factors, profit attributable to equity shareholders increased by 527% to $304 million.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets (net of deferred tax credit) increased by 25% year-on-year to $480 million. This was mainly contributed a decrease in finance cost by $219 million, partly offset by an increase in share of losses of associates and joint ventures during 1H2022.

EBITDA (Adjusted) increased by 1% year-on-year from $1,312 million to $1,320 million, mainly contributed by lower operating expenses due to operational enhancement.

Services EBITDA (Adjusted), which excluded the gross profits on Enterprise Solutions related product and other product, increased by 4% year-on-year from $1,078 million to $1,119 million, mainly due to the increase in gross profit. Services EBITDA margin (Adjusted) increased by 3.7 percentage points from 28.1% to 31.8% mainly due to the decrease in low margin wholesale IDD services.

AFF increased by 94% year-on-year to $758 million, mainly caused by a decrease in capital expenditure, interest paid and premium paid on the senior notes redemption by $34 million, $121 million and $114 million respectively, partly offset by a decrease in working capital inflow by $30 million.

## OUTLOOK

As a leading ICT solutions provider with extensive customer reach, comprehensive suite of service offerings, strong business partnerships, and unique silo-less culture, we are confident that we will be riding the post COVID-19 rebound and deliver more value to our stakeholders.

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 via collaborations 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. In October 2021, we obtained shareholders' approval on the adoption of the Co-Ownership Plan IV, of which the purpose is to align the performance target of the Group with the incentives of our Talents so that the Group could be better positioned to seize opportunities and benefits in the post COVID-19 era;

– take advantage of our one-stop telecom and technology solutions offerings that differentiates us from standalone telecom or technology solutions business to gain a further share of wallet of our large Enterprise customer base;

– strategic partnerships with industry leaders in e-security, cloud-based solutions and process automation with skin-in-the-game alignment to go big in the Hong Kong market;

– expand our quad-play bundle plans to Infinite-play to drive ARPU and subscriptions growth and disrupt the legacy broadband, fixed-voice, multimedia content and mobile standalone services, improve customer stickiness by expanding our Residential ecosystem through different new disruptive services (e.g. new OTT services with Disney+, WiFi 6 Gateway and HOME+);

– resume market growth strategy in the mobile space with best-in-town 5G mobile plans targeting both entry level and high usage users in both Residential and Enterprise market; and

– further lower finance costs by managing the net leverage ratio to below 3.5x in the medium term to enjoy a better interest rate grid of existing bank facilities.

## LIQUIDITY AND CAPITAL RESOURCES

As at 28 February 2022, the Group had total cash and cash equivalents of $1,154 million (31 August 2021: $1,527 million) and gross debt of $11,814 million (31 August 2021: $12,124 million), which led to a net debt position of $10,660 million (31 August 2021: $10,597 million). Lease liabilities of $388 million (31 August 2021: $508 million) was included as debt as at 28 February 2022 in accordance with the term of the Group's various loan facilities. The Group's gearing ratio, which was expressed as a ratio of the gross debt over total equity, was 2.2x as at 28 February 2022 (31 August 2021: 2.2x).

The Group's net debt to EBITDA ratio as computed in accordance with the term of the Group's various loan facilities was approximately 4.7x as at 28 February 2022 (31 August 2021: 4.6x). The average finance cost calculated as the interest and coupon charges over the average borrowing balance was 2.3% (31 August 2021: 2.6%). The average weighted maturity of the Group's borrowings was 3.8 years as at 28 February 2022 (31 August 2021: 4.3 years).

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 31 August 2021 and 28 February 2022. As at 28 February 2022, the Group had an undrawn revolving credit facility of $1,655 million (31 August 2021: $1,464 million).

Under the liquidity and capital resources condition as at 28 February 2022, 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 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 held for trading and measured at fair value through profit or loss.

## CHARGE ON GROUP ASSETS

As at 28 February 2022, the Group pledged assets to secure the other borrowings of $17 million (31 August 2021: $38 million).

## CONTINGENT LIABILITIES

As at 28 February 2022, the Group had total contingent liabilities of $225 million (31 August 2021: $191 million) in respect of bank guarantees provided to suppliers and customers and utility vendors in lieu of payment of utility deposits. The increase of $34 million was mainly due to increase 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

On 10 November 2021, HKBN JOS Holdings (C.I.) Limited (the "**Vendor**"), an indirect wholly-owned subsidiary of the Company and StarHub Ltd. (the "**Purchaser**") entered into the share purchase agreement (the "**Share Purchase Agreement**"), pursuant to which the Vendor conditionally agreed to sell 60% of the issued share capital of HKBN JOS (SINGAPORE) PTE. LTD. and HKBN JOS (MALAYSIA) SDN. BHD. to the Purchaser for a total consideration of approximately SG$15 million (representing approximately $87 million) before the post-closing adjustments in accordance with the Share Purchase Agreement. The conditions precedents as set out in the Share Purchase Agreement were satisfied and the completion of the disposal took place on 3 January 2022. The Disposal Group has ceased to be subsidiaries of the Company and has become 40%-owned associates of the Company. Please refer to the announcements of the Company dated 10 November 2021 and 3 January 2022 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 1H2022.

## TALENT REMUNERATION

As at 28 February 2022, the Group had 4,700 permanent full-time Talents (31 August 2021: 5,218 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 four Co-Ownership plans, namely Co-Ownership Plan II, Co-Ownership Plan III (was terminated and replaced by Co-Ownership Plan III Plus)*, Co-Ownership Plan III Plus and Co-Ownership Plan IV on 21 February 2015, 27 December 2017, 4 September 2019 and 21 October 2021 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 plans are open to all supervisors and above level Talents, spanning the Group's operations across Hong Kong, Macau and mainland China.

* *By reasons of (i) the occurrence of the acquisition of the entire issued share capital of WTT Holding Corp by Metropolitan Light Company Limited, a direct wholly-owned subsidiary of the Company, on 30 April 2019 (the "**WTT Merger**") and that the aspirational target of the adjusted available cash per share for distribution is different for the enlarged group after the WTT Merger and (ii) no grant of restricted share unit has been made under the plan since its adoption, on 21 June 2019, the Board resolved to terminate the Co-Ownership Plan III, 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 1H2022 are as follows:

| | | Number of RSUs | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | To be vested on 30 January/26 February (As at 28 February 2022) | |
| **Participants** | **Date of grant** | **Granted** | **As at 1 September 2021** | **Granted during 1H2022** | **Forfeited during 1H2022** | **Vested during 1H2022** | **As at 28 February 2022** | **2021** | **2022** |
| Other Participants | 30 January 2019 | 329,330 | 97,010 | – | – | 97,010 | – | – | – |
| Other Participants | 26 February 2019 | 126,410 | 54,002 | – | – | 54,002 | – | – | – |
| **Total** | | **455,740** | **151,012** | **–** | **–** | **151,012** | **–** | **–** | **–** |

## Co-Ownership Plan III Plus

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

Under the Co-Ownership Plan III Plus, the granting of the RSUs to the eligible participants depends on the level of the adjusted available cash per share for distribution achieved, on a cumulative basis, during the 2019, 2020 and 2021 financial years. The minimum level of the adjusted available cash per share for distribution required to be achieved by the Company before any RSU would 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 would be granted to the grantees on the basis that the grantees would, subject to the satisfaction of the vesting conditions and on the vesting date, receive 1.33 award share for every purchased share. Details of the scheme are contained in the circular of the Company dated 29 July 2019.

The cumulative adjusted available cash per share for distribution achieved by the Company was below the minimum level of $2.53 over the 2019, 2020 and 2021 financial years of the Company, therefore no RSUs were granted and accordingly, no new shares were allotted and issued. The Co-Ownership Plan III Plus will be naturally expired in October 2022.

**Co-Ownership Plan IV**

Co-Ownership Plan IV is similar to Co-Ownership Plan III Plus, which was adopted by the Company on 21 October 2021. Under the Co-Ownership Plan IV, 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 2022, 2023 and 2024 financial years. If the adjusted available cash per share for distribution, on a cumulative basis, over the 2022, 2023 and 2024 financial years of the Company reaches $3.01, the participants (including the Charitable Fund) would be granted with one RSU for every CO4 qualifying share of each participant under the Co-Ownership Plan IV, and each participant would, subject to the satisfaction of the vesting conditions and on the vesting date, receive one new award share for every RSU that he/she/it is granted. Details of the scheme are contained in the circular of the Company dated 21 September 2021.

Details of the movement of rollover and purchase of shares for the Co-Ownership Plan IV during 1H2022 are as follows:

| *1st Batch CO4 Qualifying Shares* | Number of rollover shares from Co-Ownership Plan III Plus | Number of shares purchased during 1H2022 | Number of shares purchased to be forfeited during 1H2022 (i.e. purchased shares returned to Bad Leavers*) | Number of shares under Co-Ownership Plan IV as at 28 February 2022 | Approximate percentage of the issued share capital of the Company as at 28 February 2022 | Approximate percentage of shares purchased under the scheme mandate limit utilised as at 28 February 2022 |
|---|---|---|---|---|---|---|
| Executive Directors of the Company: | | | | | | |
| — Mr. Chu Kwong YEUNG | 848,002 | 1,051,563 | – | 1,899,565 | 0.14% | 5.14% |
| — Mr. Ni Quiaque LAI | 556,007 | 1,051,563 | – | 1,607,570 | 0.12% | 4.35% |
| Directors of the Company's subsidiaries | 667,800 | 99,381 | – | 767,181 | 0.06% | 2.07% |
| Other participants | 7,416,120 | 1,377,656 | – | 8,793,776 | 0.67% | 23.78% |
| **Total** | **9,487,929** | **3,580,163** | **–** | **13,068,092** | **1.00%** | **35.34%** |

* *Please refer to the circular of the Company dated 21 September 2021 for the definition of Bad Leavers.*

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 40 cents (28 February 2021: 39 cents) per share for 1H2022 to the shareholders whose names appear on the register of members of the Company on Tuesday, 17 May 2022. The interim dividend will be payable in cash on Thursday, 26 May 2022.

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.

Based on the terms and conditions of the Vendor Loan Notes, the holders of Vendor Loan Notes are entitled to receive a cash amount payable by the Company equal to $66,928,885 based on the 40 cents interim dividend per ordinary share declared by the Company for the six months ended 28 February 2022, as if the holders of the Vendor Loan Notes are holders of 167,322,212 ordinary shares in the Company as at the record date for such interim dividend. Such cash amount will be paid by the Company to the holders of Vendor Loan Notes on Thursday, 26 May 2022, being the date on which the 2022 interim dividend will be paid by the Company.

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the proposed interim dividend, the register of members of the Company will be closed from Friday, 13 May 2022 to Tuesday, 17 May 2022, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend, 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 Thursday, 12 May 2022.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during 1H2022.

## 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 1H2022, 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 1H2022 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" contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during 1H2022.

## 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 during 1H2022.

## SUBSEQUENT EVENT

No significant events occurred after the end of the reporting period.

## 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 1H2022 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 2022

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

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

*Non-executive Directors*
Mr. Agus TANDIONO
Ms. Shengping YU
Mr. Zubin Jamshed IRANI

*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.*

## CONSOLIDATED INCOME STATEMENT

*FOR THE SIX MONTHS ENDED 28 FEBRUARY 2022*

| | | Six months ended | |
|---|---|---|---|
| | | **28 February 2022** | 28 February 2021 |
| | *Note* | ***$'000*** | *$'000* |
| **Revenue** | *3* | **6,803,050** | 6,229,584 |
| Other net income | *4(a)* | **37,085** | 5,205 |
| Network costs and costs of sales | | **(4,499,739)** | (3,926,277) |
| Other operating expenses | | **(1,839,751)** | (1,892,206) |
| Finance costs | *4(d)* | **(106,420)** | (325,496) |
| Share of losses of associates | | **(744)** | – |
| Share of losses of joint ventures | | **(8,794)** | (272) |
| **Profit before taxation** | *4* | **384,687** | 90,538 |
| Income tax charge | *5* | **(80,357)** | (41,976) |
| **Profit for the period attributable to equity shareholders of the Company** | | **304,330** | 48,562 |
| **Earnings per share** | | | |
| Basic | *6* | **23.2 cents** | 3.7 cents |
| Diluted | *6* | **20.6 cents** | 3.3 cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 28 FEBRUARY 2022*

| | Six months ended | |
|---|---|---|
| | **28 February 2022** | 28 February 2021 |
| | ***$'000*** | *$'000* |
| **Profit for the period** | **304,330** | 48,562 |
| **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 | **7,079** | 9,634 |
| Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal | **(1,917)** | – |
| Other comprehensive income for the period | **5,162** | 9,634 |
| **Total comprehensive income for the period attributable to equity shareholders of the Company** | **309,492** | 58,196 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 28 FEBRUARY 2022*

| | Note | At 28 February 2022 $'000 | At 31 August 2021 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | **9,016,507** | 9,016,507 |
| Intangible assets | | **3,364,933** | 3,606,163 |
| Property, plant and equipment | | **3,779,820** | 3,901,090 |
| Investment properties | | **194,875** | 198,828 |
| Right-of-use assets | | **592,809** | 681,349 |
| Customer acquisition and retention costs | | **541,900** | 564,849 |
| Interest in associates | | **53,319** | 4,816 |
| Interest in joint ventures | | **9,085** | 17,879 |
| Loan to associates | | **15,359** | – |
| Deferred tax assets | | **44,544** | 68,913 |
| Other non-current assets | | **73,350** | 91,958 |
| | | **17,686,501** | 18,152,352 |
| **Current assets** | | | |
| Inventories | | **112,313** | 110,615 |
| Trade receivables | *8* | **1,250,553** | 1,073,306 |
| Other receivables, deposits and prepayments | | **513,754** | 353,015 |
| Contract assets | | **230,071** | 211,945 |
| Amount due from associates | | **57** | – |
| Amount due from joint ventures | | **60,037** | 45,500 |
| Tax recoverable | | **192** | 192 |
| Cash and cash equivalents | | **1,154,341** | 1,421,124 |
| Assets classified as held for sale | | **–** | 400,384 |
| | | **3,321,318** | 3,616,081 |
| **Current liabilities** | | | |
| Trade payables | *9* | **946,460** | 935,864 |
| Other payables and accrued charges – current portion | | **950,194** | 1,018,271 |
| Contract liabilities – current portion | | **778,648** | 632,492 |
| Deposits received | | **93,493** | 90,475 |
| Obligations under granting of rights – current portion | | **2,259** | 6,771 |
| Amounts due to associates | | **4,945** | 4,816 |
| Amounts due to joint ventures | | **10,750** | 10,750 |
| Bank and other borrowings | | **419,067** | 481,283 |
| Lease liabilities – current portion | | **139,622** | 166,649 |
| Tax payable | | **159,011** | 189,496 |
| Other current liabilities | | **13,036** | 12,863 |
| Liabilities classified as held of sale | | **–** | 314,514 |
| | | **3,517,485** | 3,864,244 |
| **Net current liabilities** | | **(196,167)** | (248,163) |
| **Total assets less current liabilities** | | **17,490,334** | 17,904,189 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**
*AS AT 28 FEBRUARY 2022*

| | At 28 February 2022 $'000 | At 31 August 2021 $'000 |
|---|---|---|
| **Non-current liabilities** | | |
| Other payables and accrued charges – long-term portion | **2,128** | 30,397 |
| Contract liabilities – long-term portion | **161,448** | 194,818 |
| Deferred tax liabilities | **840,449** | 904,848 |
| Lease liabilities – long-term portion | **248,402** | 305,129 |
| Provision for reinstatement costs | **62,658** | 62,442 |
| Bank and other borrowings | **10,851,632** | 10,831,416 |
| Other non-current liabilities | **30,813** | 37,376 |
| | **12,197,530** | 12,366,426 |
| **NET ASSETS** | **5,292,804** | 5,537,763 |
| **CAPITAL AND RESERVES** | | |
| Share capital | **132** | 132 |
| Reserves | **5,292,672** | 5,537,631 |
| **TOTAL EQUITY** | **5,292,804** | 5,537,763 |

## 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 2022 but is extracted from that interim financial report which has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). It was authorised for issue on 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 2021, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021. 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.

**Going concern assumption**

As at 28 February 2022, the current liabilities of the Group exceeded their current assets by approximately $196 million. Included in the current liabilities were current portion of contract liabilities of $779 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 $140 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:

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*

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 2022** | 28 February 2021 |
| | ***$'000*** | *$'000* |
| Disaggregated by major products or service lines: | | |
| Fixed telecommunications network services | **2,322,403** | 2,373,623 |
| International telecommunications services | **442,584** | 715,216 |
| Other services | **183,256** | 241,648 |
| Fees from provision of telecommunications services | **2,948,243** | 3,330,487 |
| Product revenue | **3,287,782** | 2,389,555 |
| Technology solution and consultancy services | **556,524** | 480,192 |
| **Revenue from contracts with customers within the scope of HKFRS 15** | **6,792,549** | 6,200,234 |
| Rental income from leasing business | **10,501** | 29,350 |
| | **6,803,050** | 6,229,584 |

3 REVENUE AND SEGMENT REPORTING (Continued)

(a) Disaggregation of revenue (Continued)

| | Six months ended | |
|---|---|---|
| | **28 February 2022** | 28 February 2021 |
| | ***$'000*** | *$'000* |
| Disaggregated by major categories: | | |
| Residential Solutions revenue | **1,224,398** | 1,224,434 |
| Enterprise Solutions revenue | **2,290,870** | 2,615,595 |
| Enterprise Solutions related product revenue | **1,294,917** | 1,248,523 |
| Other product revenue | **1,992,865** | 1,141,032 |
| | **6,803,050** | 6,229,584 |

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).

(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.

## 3 REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

#### *(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.

| | **Telecom and technology solutions (Hong Kong)** | | **Telecom and technology solutions (non-Hong Kong)** | | **Total** | |
|---|---|---|---|---|---|---|
| **For the six months ended** | **28 February 2022** | 28 February 2021 | **28 February 2022** | 28 February 2021 | **28 February 2022** | 28 February 2021 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| **Disaggregated by timing of revenue recognition** | | | | | | |
| Point in time | **2,716,360** | 1,900,673 | **571,422** | 488,882 | **3,287,782** | 2,389,555 |
| Over time | **3,333,061** | 3,602,210 | **182,207** | 237,819 | **3,515,268** | 3,840,029 |
| **Revenue from external customers** | **6,049,421** | 5,502,883 | **753,629** | 726,701 | **6,803,050** | 6,229,584 |
| Inter-segment revenue | **34,605** | 17,149 | **151,392** | 171,983 | **185,997** | 189,132 |
| **Reportable segment revenue** | **6,084,026** | 5,520,032 | **905,021** | 898,684 | **6,989,047** | 6,418,716 |
| **Reportable segment profit (EBITDA)** | **1,241,405** | 1,196,213 | **63,237** | 115,604 | **1,304,642** | 1,311,817 |

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

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

| | **Six months ended** | |
|---|---|---|
| | **28 February 2022** | 28 February 2021 |
| | ***$'000*** | *$'000* |
| Reportable segment profit derived from Group's external customers | **1,304,642** | 1,311,817 |
| Finance costs | **(106,420)** | (325,496) |
| Interest income | **1,535** | 1,271 |
| Depreciation | **(457,259)** | (507,518) |
| Amortisation of intangible assets | **(209,153)** | (241,497) |
| Amortisation of customer acquisition and retention costs | **(148,658)** | (148,039) |
| Consolidated profit before taxation | **384,687** | 90,538 |

## 4 PROFIT BEFORE TAXATION

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

| | Six months ended 28 February 2022 $'000 | 28 February 2021 $'000 |
|---|---|---|
| **(a) Other net income** | | |
| Interest income | **(1,535)** | (1,271) |
| Net foreign exchange loss | **8,090** | 11,381 |
| Amortisation of obligations under granting of rights | **(4,512)** | (4,512) |
| Fair value loss on currency forward | **–** | 309 |
| Gain on disposal of subsidiaries | **(26,859)** | – |
| Other income | **(12,269)** | (11,112) |
| | **(37,085)** | (5,205) |
| **(b) Other operating expenses** | | |
| Advertising and marketing expenses | **172,472** | 172,514 |
| Depreciation | | |
| – Property, plant and equipment | **355,454** | 373,129 |
| – Investment properties | **3,953** | 3,953 |
| – Right-of-user assets | **95,018** | 102,733 |
| Loss on disposal of property, plant and equipment, net | **650** | 418 |
| Gain on disposal of right-of-use assets, net | **–** | (148) |
| Recognition of loss allowance on trade receivables and contract assets | **59,887** | 43,818 |
| Talents costs *(note 4(c))* | **509,624** | 516,565 |
| Amortisation of intangible assets | **209,153** | 241,497 |
| Amortisation of customer acquisition and retention costs | **148,658** | 148,039 |
| Others | **284,882** | 289,688 |
| – Office rental and utilities | **41,145** | 40,054 |
| – Site expenses | **47,176** | 45,623 |
| – Bank handling charges | **21,467** | 22,022 |
| – Maintenance | **60,827** | 64,717 |
| – Subscription and license fees | **54,786** | 52,578 |
| – Legal and professional fees | **11,871** | 17,787 |
| – Printing, telecommunication and logistics expenses | **23,804** | 25,815 |
| – Others | **23,806** | 21,092 |
| | **1,839,751** | 1,892,206 |

## 4 PROFIT BEFORE TAXATION (Continued)

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

### (c) Talents costs

| | Six months ended 28 February 2022 $'000 | Six months ended 28 February 2021 $'000 |
|---|---|---|
| Salaries, wages and other benefits | **830,001** | 868,444 |
| Contributions to defined contribution retirement plan | **64,003** | 59,933 |
| Equity-settled share-based payment expenses | **145** | 269 |
| Cash-settled share-based payment expenses | **67** | 70 |
| | **894,216** | 928,716 |
| Less: Talent costs capitalised as property, plant and equipment | **(24,901)** | (29,492) |
| Talent costs included in advertising and marketing expenses and amortisation of customer acquisition and retention costs | **(160,048)** | (197,804) |
| | **709,267** | 701,420 |
| Talent costs included in other operating expenses | **509,624** | 516,565 |
| Talent costs included in network costs and costs of sales | **199,643** | 184,855 |
| | **709,267** | 701,420 |

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.

No such Talent-related funding support was recognised and passed to the Talents during six months ended 28 February 2022.

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

## 4 PROFIT BEFORE TAXATION (Continued)

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

### (d) Finance costs

| | Six months ended | |
|---|---|---|
| | **28 February 2022** | 28 February 2021 |
| | ***$'000*** | *$'000* |
| Interest and finance charges on bank loans | **126,237** | 95,211 |
| Interest on other borrowings | **480** | 528 |
| Interest and finance charges on senior notes | **–** | 56,640 |
| Interest on interest-rate swap, net | **5,623** | 2,340 |
| Interest on lease liabilities | **9,473** | 12,634 |
| Interest on other liabilities | **631** | 777 |
| Loss on extinguishment of senior notes | **–** | 145,463 |
| Fair value (gain)/loss on interest-rate swap | **(36,024)** | 11,903 |
| | **106,420** | 325,496 |

### (e) Other items

| | Six months ended | |
|---|---|---|
| | **28 February 2022** | 28 February 2021 |
| | ***$'000*** | *$'000* |
| Amortisation of intangible assets | **241,246** | 293,003 |
| Depreciation | | |
| – Property, plant and equipment | **355,454** | 373,129 |
| – Investment properties | **3,953** | 3,953 |
| – Right-of-user assets | **97,852** | 130,436 |
| Rental charges on telecommunications facilities and computer equipment | **205,537** | 176,635 |
| Expenses relating to short-term leases and leases of low-value assets | **6,654** | 7,102 |
| Recognition of loss allowance on trade receivables and contract assets | **59,887** | 43,818 |
| Research and development costs | **16,521** | 19,047 |
| Cost of inventories | **3,087,159** | 2,153,892 |
| Write-down of inventories | **48** | 1,674 |

## 5 INCOME TAX CHARGE

| | Six months ended | |
|---|---|---|
| | **28 February 2022** | 28 February 2021 |
| | ***$'000*** | *$'000* |
| Current tax – Hong Kong Profits Tax | **(112,262)** | (92,964) |
| Current tax – Outside Hong Kong | **(8,572)** | (6,651) |
| Deferred tax | **40,477** | 57,639 |
| | **(80,357)** | (41,976) |

The provision for Hong Kong Profits Tax is calculated at 16.5% for the six months ended 28 February 2022 (six months ended 28 February 2021: 16.5%) of the estimated assessable profits for the period, except for one subsidiary of the Group which is qualifying corporation under the two-tired 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 2021.

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 $304,330,000 (six months ended 28 February 2021: $48,562,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,310,746,140 ordinary shares (six months ended 28 February 2021: 1,310,674,671 ordinary shares).

| | Six months ended | |
|---|---|---|
| | **28 February 2022** | 28 February 2021 |
| | ***'000*** | *'000* |
| Issued ordinary shares at 1 September 2020/2021 | **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 | **4,814** | 4,743 |
| Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II | **1,310,746** | 1,310,675 |

## 6 EARNINGS PER SHARE (Continued)

### (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 $304,330,000 (six months ended 28 February 2021: $48,562,000) 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 2022** | 28 February 2021 |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II | **1,310,746** | 1,310,675 |
| Add: effect of the Co-Ownership Plan II | **–** | 411 |
| Add: effect of the Vendor Loan Notes | **167,322** | 167,322 |
| Weighted average number of ordinary shares (diluted) | **1,478,068** | 1,478,408 |

## 7 DISPOSAL OF SUBSIDIARIES

**Disposal of subsidiaries during the period ended 28 February 2022**

On 10 November 2021, an indirect wholly-owned subsidiary of the Company entered into the Share Purchase Agreement with a third party to sell the 60% equity interest of two subsidiaries. The total consideration of approximately $74 million was net of provisional post-closing adjustment in accordance with the Share Purchase Agreement and subject to changes after the finalisation of the Completion Working Capital Statement. Upon the completion in January 2022, these two subsidiaries ceased to be subsidiaries of the Company and became 40%-owned associates of the Company.

## 7 DISPOSAL OF SUBSIDIARIES (Continued)

**Disposal of subsidiaries during the period ended 28 February 2022 (Continued)**

Assets and liabilities associated with these subsidiaries have been classified as held for sale as 31 August 2021. These assets and liabilities on the date of disposal and the reconciliation to gain on disposal are as follows:

| | *$'000* |
|---|---|
| Intangible assets | 37,969 |
| Property, plant and equipment | 6,094 |
| Right-of-use assets | 51,026 |
| Deferred tax assets | 1,245 |
| Inventories | 62,488 |
| Contract assets | 22,548 |
| Trade receivables | 84,573 |
| Other receivables, deposits and prepayments | 19,571 |
| Finance lease receivables | 3,633 |
| Trade payables | (105,713) |
| Other payables and accrued charges | (16,101) |
| Provision for reinstatement costs | (1,340) |
| Contract liabilities | (11,028) |
| Bank loans | (7,406) |
| Tax payables | (1,104) |
| Deferred tax liabilities | (6,034) |
| Lease liabilities | (42,498) |
| **Net assets disposed of** | **97,923** |
| **Net assets disposed of** | **(97,923)** |
| Consideration received | 73,719 |
| Exchange gain on translating foreign operations transferred income statement upon disposal | 1,917 |
| Fair value of the retained equity interest | 49,146 |
| **Gain on disposal of subsidiaries** | **26,859** |
| **Consideration received** | **73,719** |

## 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 2022** | At 31 August 2021 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Within 30 days | **425,964** | 391,683 |
| 31 to 60 days | **230,703** | 211,658 |
| 61 to 90 days | **149,234** | 114,712 |
| Over 90 days | **444,652** | 355,253 |
| | **1,250,553** | 1,073,306 |

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 2022** | At 31 August 2021 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Within 30 days | **352,488** | 388,941 |
| 31 to 60 days | **307,907** | 111,618 |
| 61 to 90 days | **129,895** | 132,769 |
| Over 90 days | **156,170** | 302,536 |
| | **946,460** | 935,864 |

## 10 DIVIDENDS

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

| | Six months ended | |
|---|---|---|
| | **28 February 2022** | 28 February 2021 |
| | ***\$'000*** | *\$'000* |
| Interim dividend declared after the interim period of 40 cents per ordinary share (six months ended 28 February 2021: 39 cents per ordinary share) *(Note)* | **524,640** | 511,524 |

*Note:* The amount of 2022 proposed interim dividend is based on the 1,311,599,356 (2021: 1,311,599,356) ordinary shares in issue as at the date of this interim results announcement.

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 2022** | 28 February 2021 |
| | ***\$'000*** | *\$'000* |
| Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 37.5 cents per ordinary share (six months ended 28 February 2021: 38 cents per ordinary share) | **491,850** | 498,408 |