香港寬頻
HONG KONG BROADBAND NETWORK

FY20 Annual Results Presentation for 12 months ended 31 August 2020

Presentation by:
William Yeung, Co-Owner & Executive Vice-chairman
NiQ Lai, Co-Owner & Group Chief Executive Officer
Almira Chan, Co-Owner & Chief Strategy Officer (ex-CFO of WTT)

29 October 2020

Changing the Game

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NiQ Lai

Co-Owner & Group Chief Executive Officer

#ToughTimesTogether Campaign under COVID-19

Talents

- Passing regional governments' subsidies to all eligible Talents
- Market leading WFH arrangements

Community

- 10,000 free broadband lines offers
- 100 Career Kickstarter offers for university graduates

Customers & Partners

- 1-Month fee waiver
- Barter & Bundle
- "18 Districts Infinite Rewards" free promotions campaign

Solid GROWTH Amid COVID-19

Inclusive of Proactive #ToughTimesTogether

Service Revenue	EBITDA^	AFF
$7,155m YoY +49%	$2,505m (HKFRS16) YoY +47% $2,251m (pre-HKFRS16) YoY +32%	$1,114m YoY +49%*

DPS : 75 HK Cents

YoY +7%

- WTT and JOS acquisitions completed in Apr-19 and Dec-19, respectively; FY20 results included 12 months of WTT and ~8.5 months of JOS performance vs 4 months of WTT and nil of JOS in FY19
- #ToughTimesTogether refer to a series of campaigns in FY20 for the purpose of helping the community in the wake of COVID19, including waving 1-month service fees in Mar-20

* In FY19, dividend for the 1,006m shares before merger is funded by $700m AFF while the dividend for the 473m newly issued shares (including unconverted vendor loan notes) is primarily funded by surplus cash at WTT in the end of FY19

Resilient GROWTH on all Business Fronts

Enterprise Solutions	**105k** *Enterprise Customers* ***+2%***	**$2,948** *Enterprise ARPU* ***+69%***	**$6,514m** *Total Revenue^* ***>100%***
Residential Solutions	**886k** *Broadband Subscriptions* ***+1%***	**$190** *Residential ARPU#* ***+3%***	**$2,483m** *Service Revenue #* ***+0.4%***

^ Enterprise Solutions total revenue included $4,708m of Enterprise service revenue and $1,806m of Enterprise Solutions related product revenue
# Residential ARPU refers to historical full base residential ARPU for the period. Residential ARPU and Residential service revenue excluded 1-month fee waiver impact ($36m) in Mar-20. Acquisition and renewal contract ARPU refers to ARPU of the new acquisition and renewal subscriptions for the specific month. Such ARPU was $192 in Aug-20.

Massive Transformation Since IPO in 2015

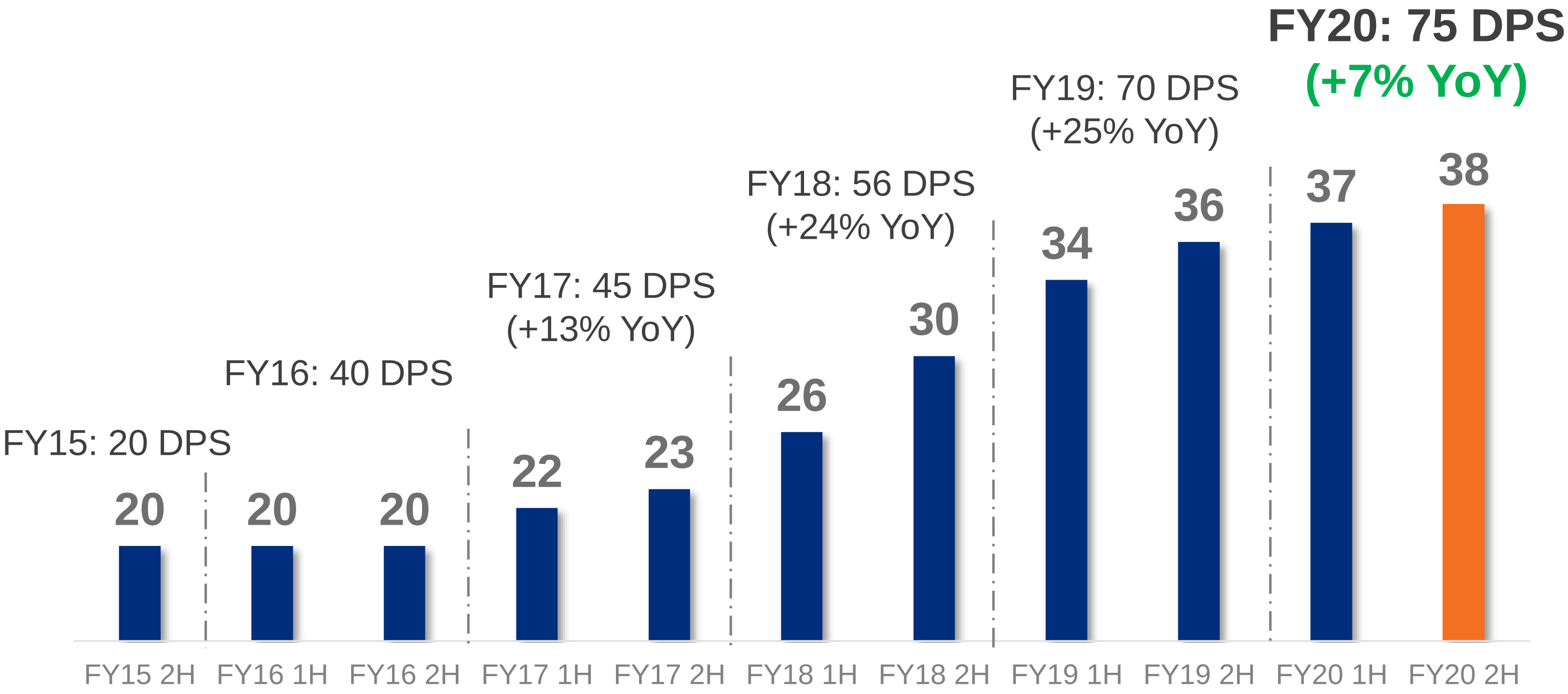
1-HKBN

	FY15	FY20	
Total Revenue	$2.3B	**$9.5B**	**4.1x**
EBITDA^	$1.0B	**$2.5B**	**2.5x**
DPS	$0.40*	**$0.75**	**1.8x**
No. of Talents	2,596	**5,929**	**2.3x**
No. of Co-Owners	>270	**>990**	**3.7x**

* FY15 Reported DPS is $0.2 due to IPO after interim ; $0.4 DPS is pro forma full year for illustration only
^ EBITDA in FY20 adopted new accounting standard HKFRS15 and HKFRS16

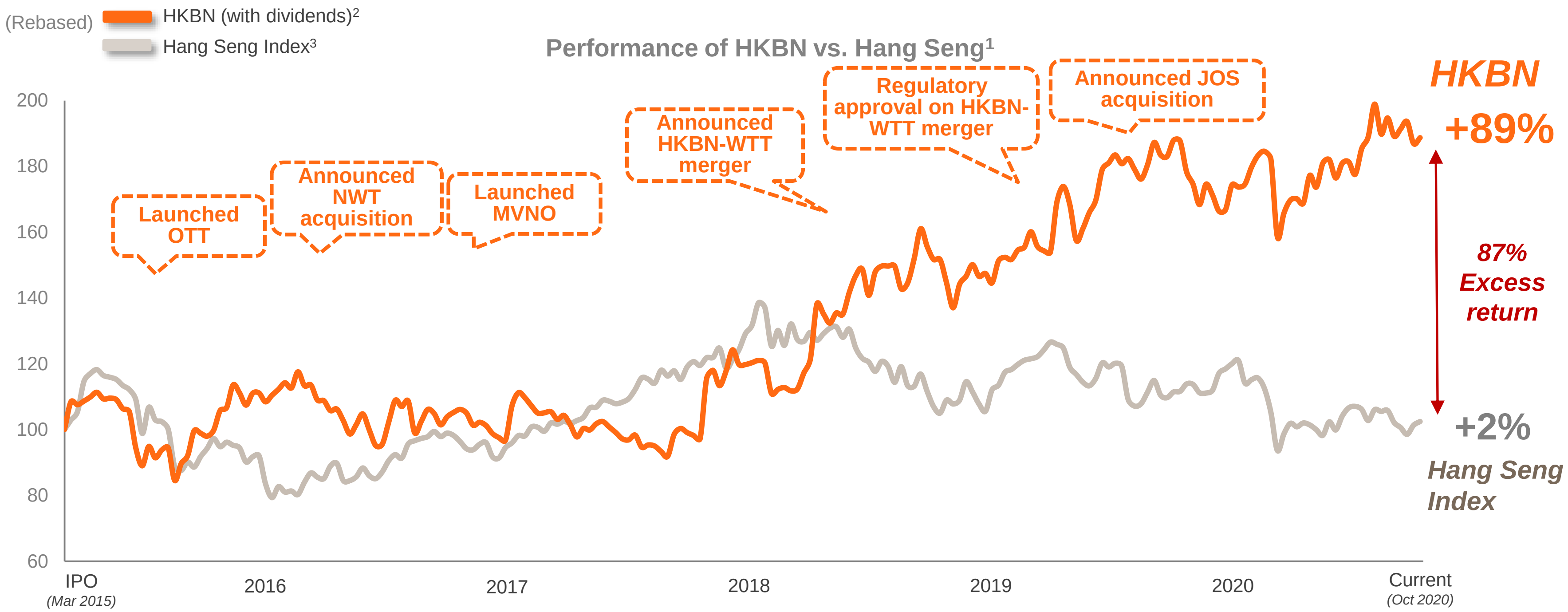
Industry Leading Dividend GROWTH

For >990 Co-Owners, This is our Families AFF



The dividend policy of the Company is to pay dividends in an amount of not less than 90% of the Adjusted Free Cash Flow with an intention to pay 100% of the Adjusted Free Cash Flow in respect of the relevant full year period, after adjusting for potential debt repayment, if required. For the shares of 1,005,666,666 existed immediately before the WTT Merger, the Company has recommended to pay 100% of the Adjusted Free Cash Flow for the full year dividend. The dividend on the 305,932,690 newly issued consideration shares and the amount payable to the vendor loan note shall be funded by cash and cash equivalent held by WTT as of completion date and the Adjusted Free Cash Flow contributed by WTT for FY19

Industry Leading Total Returns



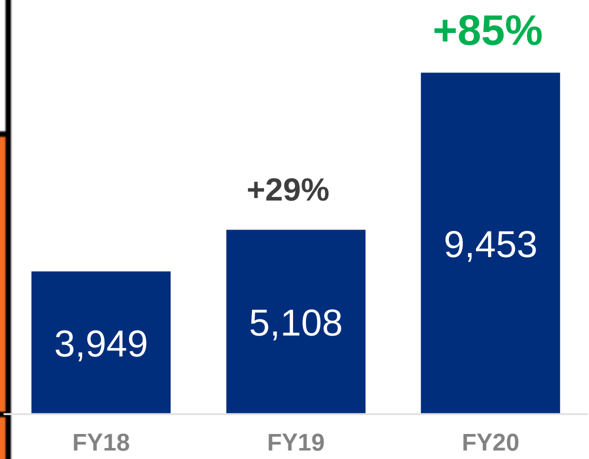
Source: HKBN's disclosure, FactSet

Note: Based on market data as of 18-Oct-20; [1] Both of HKBN share price and Hang Seng Index were rebased to 100 on 12-Mar-15; [2] Adjusted for accumulated DPS based on actual timing of dividends payment; [3] Hang Seng Index reflects cash dividend or distribution in the total return index counterpart as reinvestment on the ex-date

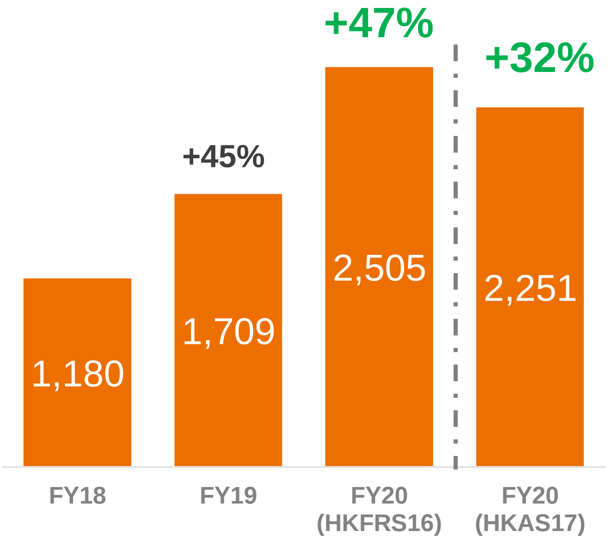
Sustaining GROWTH in EBITDA & AFF

Financials in HK$mn, unless otherwise stated

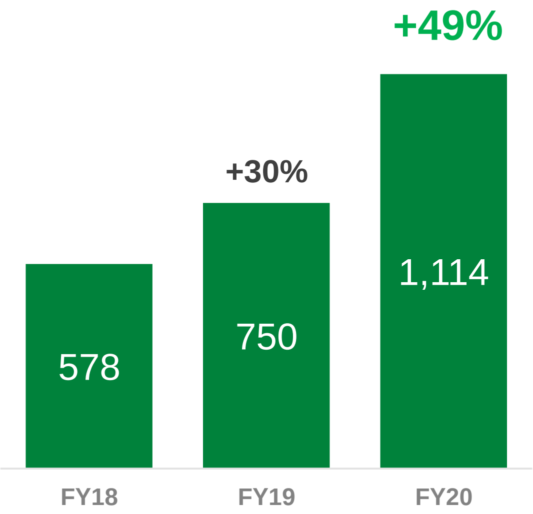
Revenue



EBITDA

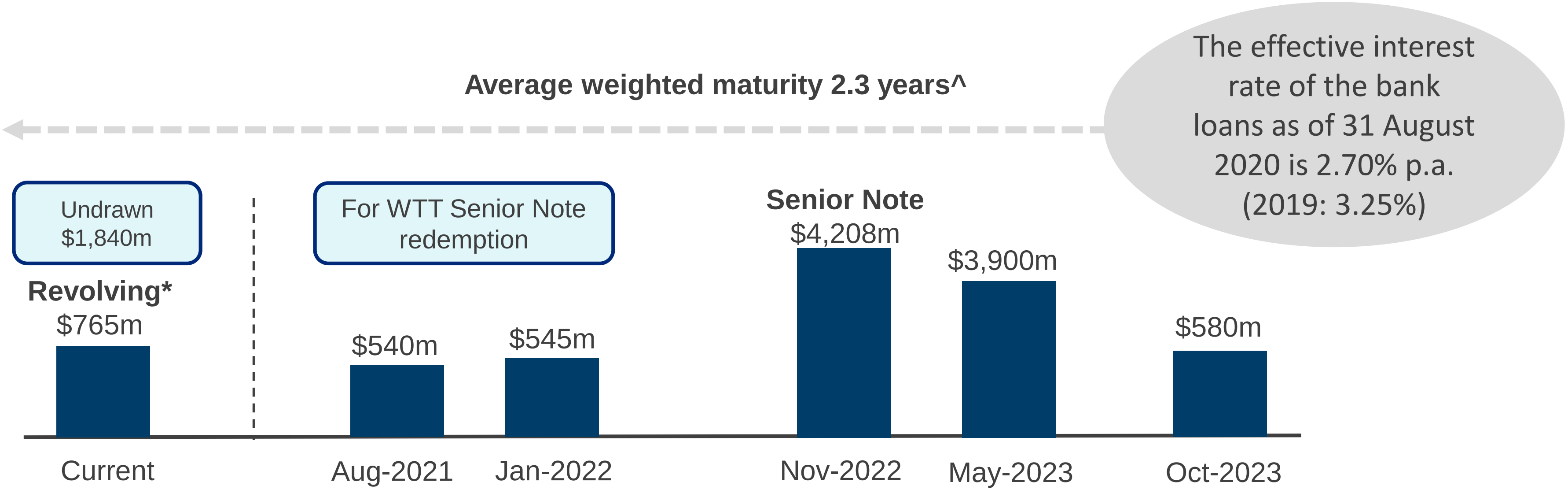


Adjusted Free Cash Flow



- WTT and JOS acquisitions completed in Apr-19 and Dec-19 respectively; FY20 results included 12 months of WTT and ~8.5 months of JOS performance vs 4 months of WTT and nil of JOS in FY19
- After the adoption of HKFRS16, operating leases are capitalized as right-of-use assets with the corresponding recognition of lease liabilities. Right-of-use assets is depreciated over the corresponding lease term and is excluded from EBITDA. Reported EBITDA is improved by excluding the expenses relating to those applicable leases but no overall impact on AFF.

Manageable debt profile with NLR# of 4.4x



- Refinanced 20% of senior note at favorable interest rate via shorter tenor term loans
- The global low interest environment also benefit the group's overall interest savings

NLR is short for Net Leverage Ratio, calculated at Net Debt over EBITDA, calculated as per the syndicated loan requirement (adjusted for new accounting standard, pro forma synergies, full year results of WTT and JOS, etc)
^ Maturity as measured from 31-Aug-20 on a weighted basis. Revolving facilities assumed one year maturity.
* Revolving facilities were drawn primarily to fund JOS acquisition, professional fees for acquisitions and JOS working capital, which existed prior to completion.

Silo-less 1-HKBN Co-Owners
Align Long-term Interest of Key Stakeholders

1-HKBN

Seniority	Total Invited for Co-Ownership	Co-Ownership Take-up	Co-Ownership Take-up Rate %
CXO Management Committee	10	10	100%
Director / Associate Director	62	62	100%
Managers	428	323	75%
Supervisors	1,627	597	37%
Total eligible for Co-Ownership*	**2,127**	**992**	47%

* Inclusive 70 JOS Beyond-Hong Kong pain/Gain Co-Owners

- Figures as of 31-Aug-20

Our Culture

Please love it or hate it, just don't be indifferent to it

- Mass **Co-Ownership** for macro alignment.
- Specific **pain/GAIN** for project alignment.
- **Assume "Yes"** unless we say "No".
- **Calculated risk** taking is required… must fail in order to stretch limit.
- **Propose**, don't just ask.
- **Elite sports team**, rather than family.
- **Pay top 25%** for top 10% elite athletes.
- **Exit bottom 5%** of salary base annually.
- **Talent obsession** before customer obsession.

Our Core Purpose …

Almira Chan

Co-Owner & Chief Strategy Officer
(ex-CFO of WTT)

Successful WTT & JOS Integration into 1-HKBN

- Integration are substantially **completed** and on track to deliver **synergy of >HK$300m***
- Massive “shock” change to **Talent-oriented Co-Ownership culture**
- **Rejuvenation of JOS Beyond-HK** lead by **Almira, CSO of HKBN (ex-CFO of WTT)**

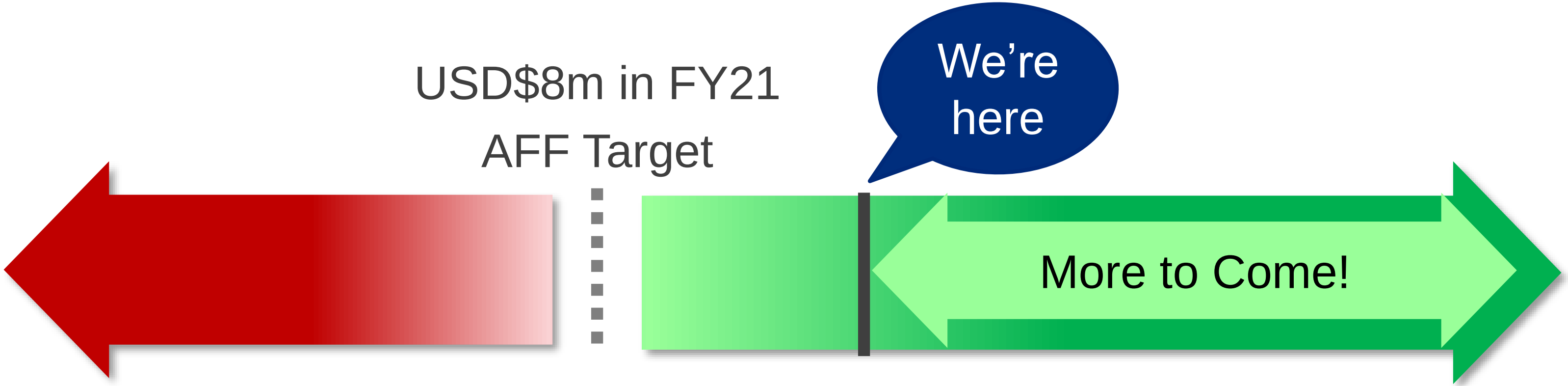
Set for GROWTH

* Last shown in FY19 annual results presentations

JOS Beyond-HK pain/GAIN Alignment

How we turned a ~USD$200m revenue business from **breakeven** to **AFF positive?**

<u>70 Top Executives aligned through pain/GAIN incentive scheme:</u>



Below : All **pain**

Contributions go to charity

Over : **GAIN**

25% share by pain/GAINERs with cap 4x

* JOS Beyond-HK USD$200m is based on FY18 full year revenue from China, Singapore, other territories

William Yeung

Co-Owner & Executive Vice-chairman

Transformation into T&T Powerhouse

Transformation

Co-Ownership III Plus KPI period for cumulative HK$2.53 to HK$3.03 AFF^

Co-Ownership IV and more ..

	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Actual	FY21	FY22
Enterprise	Integrate NWT	Integrate NWT	Harvest	Harvest / WTT Integration	JOS Integration / Harvest	**Towards integrated Telecom & Technology Solutions Provider**	
Residential	From Single to Quad play				**Towards Infinite-Play**		
Broadband	Invest	Invest	Harvest	Harvest			
OTT	n/a	Invest	Invest				
Mobile	Invest	Invest	Invest				

^ AFF refers to FY19-21 total Cumulative Adjusted Available Cash per Share for Distribution

Realizing Full Potential of 1-HKBN

>HK$1.7 billion Total Contract Value*

Hong Kong Broadband Network	+	WTT	+	jos
Co-Ownership Culture		Extended Network Coverage & Customer Base		Solutions & SI Expertise Extended Customer Base

Transformed to a Premier Telecom & Technology Solutions Provider

- HK-Based Mobile Carrier (Backhaul Services)
- Local Quick Service Restaurants and Retail leaders
- A Financial Market Operator Overseeing Securities Trading
- A Leading Digital Hub in Hong Kong
- One of the Largest Global Bank in the World
- An Organization Managing Public Services

* Represents all new contract wins in FY20 with >HK$1m contract value, to be realized from 2 to 15 years

In Tough Times, We Grow Stronger

HKBN's ethos

HK - TAC

HK - KITEC

GZ

Global HKBN Day celebration event for all HKBNers on 13 October (1310), our stock code number on the Hong Kong Stock Exchange

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The End

Changing the Game

Appendix

Operational Highlights – Enterprise Solutions

	FY19	FY20	YoY Changes
Commercial building coverage	7,224	7,374	+2%
Subscriptions ('000)			
- Broadband	116	117	+1%
- Voice	454	443	-2%
Market share			
- Broadband	37.8%	36.8%	-1.0pp
- Voice	25.3%	25.3%	+0pp
Enterprise customers ('000)	103	105	+2%
Broadband churn rate	1.3%	1.4%	+0.1pp
Enterprise ARPU	$1,742	$2,948	+69%

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 Jun-20 market data for broadband services and voice services respectively.

Operational Highlights – Residential Solutions

	FY19	FY20	YoY Changes
Residential homes passed ('000)	2,360	2,415	+2%
Subscriptions ('000)			
- Broadband	878	886	+1%
- Voice	500	498	-0%
Market share			
- Broadband	35.8%	35.2%	-0.6pp
- Voice	22.0%	22.4%	+0.4pp
Residential customers ('000)	1,019	1,019	+0%
Broadband churn rate	0.9%	0.9%	-0pp
Residential ARPU (without TTT*)	$185	$190	+3%
Residential ARPU (with TTT*)	$185	$187	+1%

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 Jun-20 market data for broadband services and voice services respectively.

* "TTT" represents the campaign namely ToughTimesTogether in which the Group offered 1-month service fee waiver to its customers

Consolidated Income Statement

(HK$ million, unless otherwise stated)	FY19	FY20	YoY Changes
Enterprise Solutions	2,324	4,708	>100%
Enterprise Solutions related Product	-	1,806	n/a
Residential Solutions	2,473	2,447	-1%
Other product	311	491	58%
Turnover	**5,108**	**9,453**	**85%**
Other net income	30	26	-14%
Network costs and cost of services	-1,545	-2,943	91%
Costs of inventories	-289	-1,983	>100%
Advertising and marketing expenses	-373	-397	6%
Amortisation of customer acquisition and retention costs	-241	-292	21%
Talent costs included in other operation expenses	-693	-1,068	54%
Other operating expenses	-1,429	-2,177	52%
Finance cost	-259	-527	>100%
Profit before taxation	**309**	**92**	**-70%**
Income tax	-95	5	>100%
Profit for the period	**215**	**97**	**-55%**
Amortisation of intangible assets	284	610	>100%
Deferred tax arising from amortisation of intangible assets	-46	-98	>100%
Loss on extinguishment of senior notes	-	44	n/a
Deferred tax recognized on unused tax losses	-	-80	n/a
Loss on derecognition of contingent consideration	-	15	n/a
Impairment provision for investment properties	-	7	n/a
Transaction costs in connection with business combination	76	7	-91%
Transaction costs in connection with proposed business combination	10	-	-100%
Adjusted Net Profit	**538**	**600**	**12%**

All financial figures are rounded to nearest HK$ million

Consolidated Balance Sheet (Summary)

(HK$ million, unless otherwise stated)	At 31 August 2019	At 29 February 2020	At 31 August 2020
Non-current assets	18,635	19,480	19,211
Current assets	1,747	3,042	2,913
Current liabilities	1,745	3,737	4,632
Total assets less current liabilities	**18,637**	**18,784**	**17,492**
Non-current liabilities	11,180	11,744	11,032
Net assets	**7,457**	**7,040**	**6,460**
Capital and Reserves	**7,457**	**7,040**	**6,460**

Additional Info:			
Goodwill and intangible assets	13,427	13,571	13,217
Property, plant and equipment	4,342	3,972	4,112
Cash and cash equivalents	663	692	676
Bank loans	4,454	6,322	6,329
Senior notes	5,169	4,137	4,102

All financial figures are rounded to nearest HK$ million

Reconciliation of EBITDA and Adjusted Free Cash Flow

(HK$ million, unless otherwise stated)	FY19	FY20	YoY Changes
Profit for the year	**215**	**97**	**-55%**
Finance costs	259	527	>100%
Interest income	-4	-3	-19%
Income tax charge/ (credit)	95	-5	>100%
Depreciation	535	974	82%
Amortisation of intangible assets	284	610	>100%
Amortisation of customer acquisition and retention costs	241	292	21%
Impairment provision for investment properties	-	7	n/a
Transaction costs in connection with business combination	76	7	-91%
Transaction costs in connection with proposed business combination	10	-	-100%
EBITDA#	**1,709**	**2,505**	**47%**
Service EBITDA Margin	35.2%	30.6%	-4.6pp
Capital expenditure	-414	-541	31%
Net interest paid	-277	-430	55%
Bond redemption	-	-31	n/a
Other non-cash items	4	9	>100%
Income tax paid	-117	-162	38%
Customer acquisition and retention costs	-232	-289	25%
Lease payment	-	-240	n/a
Changes in working capital	77	291	>100%
Adjusted Free Cash Flow	**750**	**1,114**	**49%**
Dividend *	**1,035**	**1,109**	**7%**
DPS (HK cents)	70	75	7%

After the adoption of HKFRS16, operating leases are capitalized as right-of-use assets with the corresponding recognition of lease liabilities. Right-of-use assets is depreciated over the corresponding lease term and is excluded from EBITDA. Reported EBITDA is improved by excluding the lease payment but no overall impact on AFF.

* Dividend amount included the distribution to vendor loan note holders, who are entitled to the same DPS on the equivalent number of shares based on the terms of the vendor loan notes.

All financial figures are rounded to nearest HK$ million

Impact of New Accounting Standard

The impact of the initial application of HKFRS16 is summarized as follows:

FY20 (HK$mn)	Presented by old accounting standard HKAS17	Presented by new accounting standard HKFRS16	Impact	Remarks
Revenue	9,453	9,453	No impact	
EBITDA	2,251	2,505	+254	Under HKFRS16, operating leases are capitalized as right-of-use assets with the corresponding recognition of lease liabilities. Right-of-use assets is depreciated over the corresponding lease term and is excluded from EBITDA
AFF	1,114	1,114	No impact	The change in treatment of customer acquisition and retention cost has no cash impact

All financial figures are rounded to nearest HK$ million