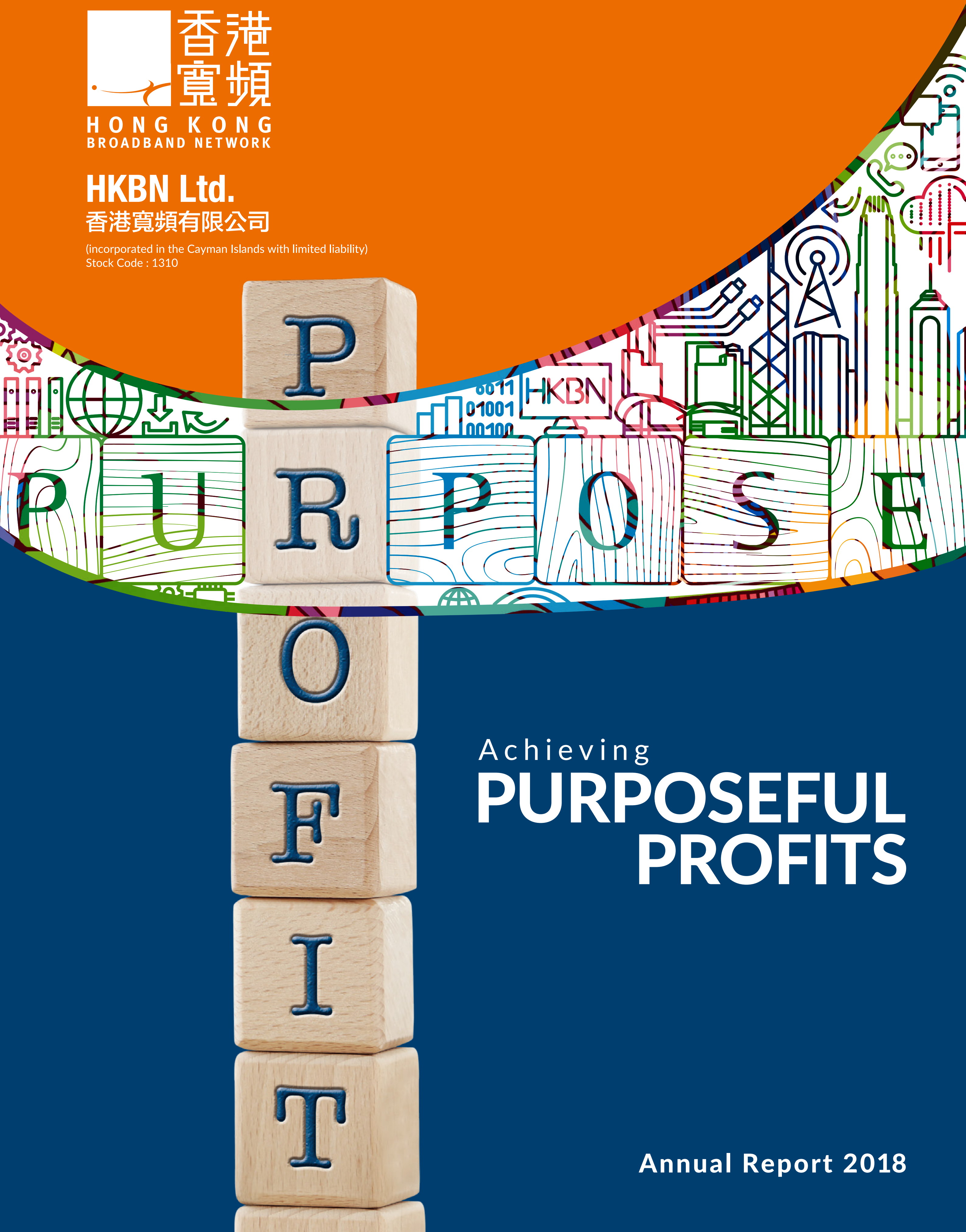
香港寬頻
HONG KONG BROADBAND NETWORK

HKBN Ltd.
香港寬頻有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code : 1310



Achieving
PURPOSEFUL PROFITS

Annual Report 2018

Achieving
PURPOSEFUL PROFITS

For most businesses, success is essentially defined through profits. At HKBN we believe a more meaningful and overall better approach emerges when profits are achieved in a purposeful way.

From making best-in-class telecommunication services affordable and accessible for the masses, to the way we champion LIFE-work priority in order to catalyse change for Hong Kong's workplace culture, in everything we do and every decision we take, our Core Purpose is omnipresent and clear:

> "Make our Hong Kong a Better Place to Live."

With this powerful call-to-action guiding us, HKBNers share a strong collective alignment of interest, and are extra passionate to deliver products, services and outcomes that are always great for our stakeholders and Hong Kong's communities. And when these occur, we know, compelling business performance and profits will absolutely follow in tandem as evidenced by our results.

Welcome to
HKBN'S
2018 Annual Report

Unless otherwise stated, all monetary figures from this report are in Hong Kong dollars. This report is published in both English and Chinese. Where the English and the Chinese texts conflict, the English text prevails.


LIFE-work
Priority
Innovation
HONG
KONG
香港寬頻
HONG KONG
BROADBAND NETWORK

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2018 at a Glance

Financial Performance

Revenue growth
22%

EBITDA growth
13%

Adjusted Free Cash Flow growth
28%

Enterprise Revenue growth
14%

Customers

860,000
Residential broadband subscriptions

265,000
Activated mobile subscriptions
(residential market)

Talents

Over 330
Co-Owners
(Co-Ownership Plan II)

Over 3,000
Talents

Total training hours provided
94,184

Network covers
2.3 million
homes

Network covers
2,400
commercial buildings

835,000
myTV SUPER boxes deployed

36.3%
Market share of residential broadband services as of 31 July 2018

57,000
Enterprise customers

Community

14
CSI projects organised

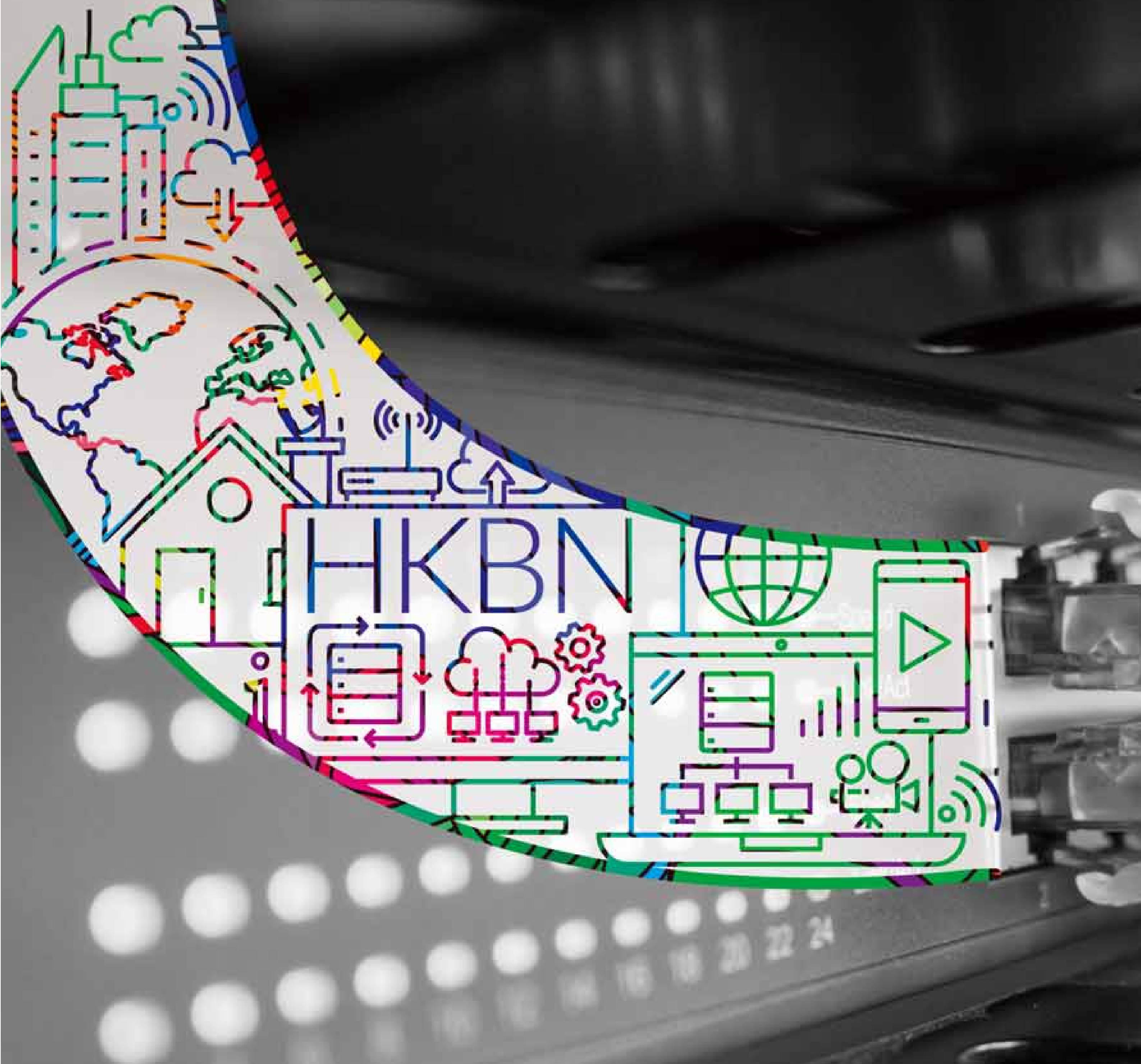
245
Volunteers

Number of hours volunteered
2,239

Environment

7.8%
Reduction of total carbon emissions in Hong Kong operations

Waste recovery rate
55.57%
in Hong Kong operations



"Make our **Hong Kong** a Better Place **to Live**"

Our Company

This is HKBN Group

Driven by a

Passionate pursuit of purposeful profits,

we strive to become Hong Kong's most preferred telecom service provider.

Since 1999, with an anti-status quo desire to do things differently and bring benefits to the public, we have grown from a fledgling startup into one of the largest telecom service providers in Hong Kong. Throughout this journey, we never forget that success is best achieved when customers enjoy the best, most innovative and reliable service possible, delivered at a highly competitive value. This ensures that a long-lasting relationship is built between HKBN and our customers.

Make our HONG KONG a Better Place to Live

At HKBN, we are innovators, managers, marketers, technologists, Co-Owners, mothers, husbands, sons, daughters and much more. While we wear many different hats, what we share in common is the love for the city we call home, our Hong Kong.

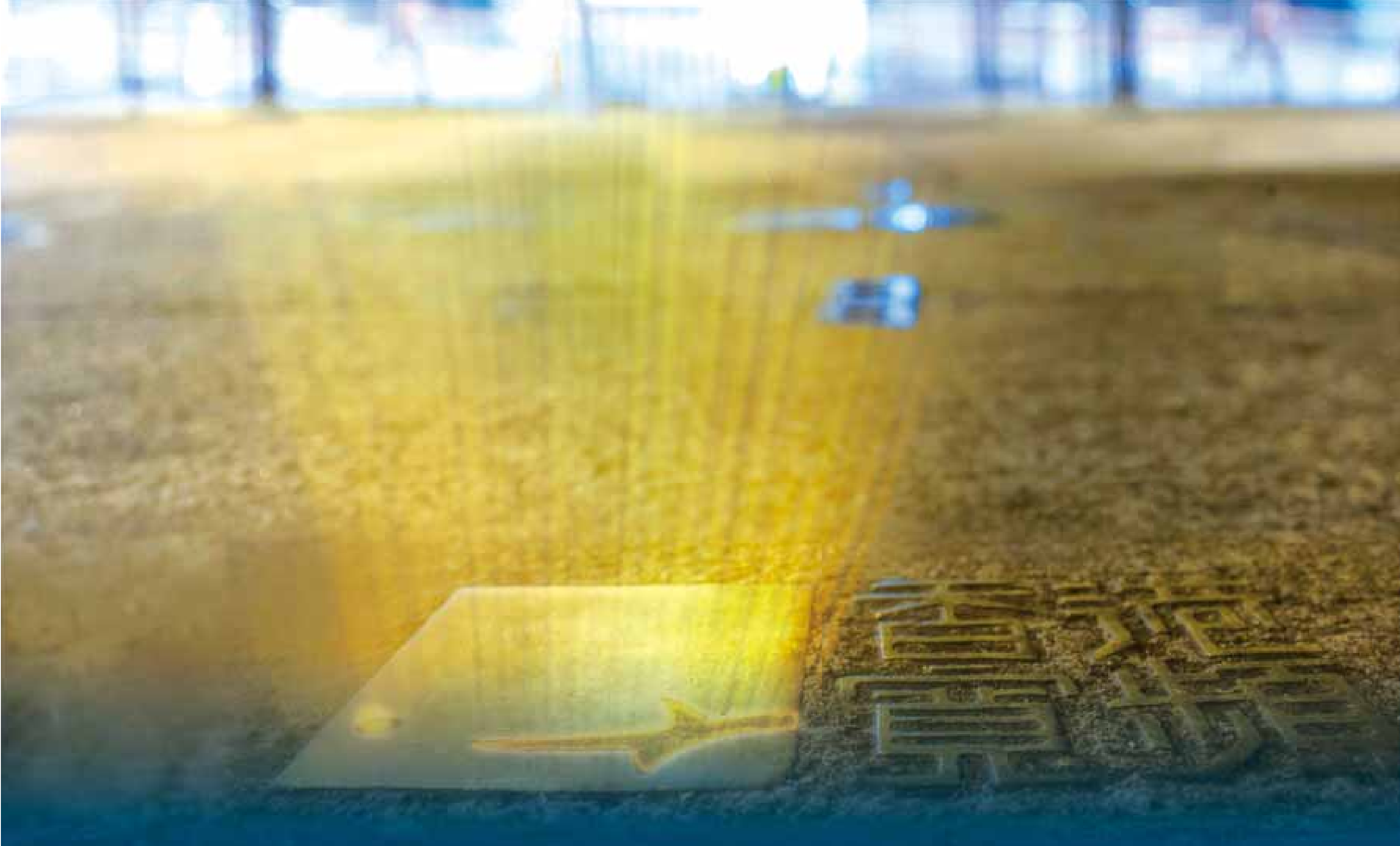
Underlying this love is an obligation to make a difference; above all we want Hong Kong to become a better place for everybody. Whether it is connecting millions of Hong Kongers and thousands of businesses through the Internet or mobile communications, or the work we do to empower self-sustenance for underprivileged communities, we greet each day as a chance for improvement and change.

Competitiveness Through Purpose

Given the context of our Core Purpose, we believe HKBN's business is better served when we are PURPOSE + PROFIT driven rather than PROFIT-only focused. Without question, our purpose functions as an integrated failsafe which guarantees our commitment to deliver the best of all possibilities for customers. As a result, this means our offerings will always maintain an exceptional level of desirability, equating for better profits overall.

Inspired by Purpose

We believe the role of PURPOSE, when unleashed by more businesses, can have a transformative effect to make the world a better place. We take a very proactive role – leading by example – to encourage more people to see a future where purpose is the empowering factor for private business. At every possible occasion, we do our best to inspire our stakeholders to join this purposeful profit evolution.



As a leading provider of premier telecommunications services, our work contributes indispensably to what we expect in a modern, thriving interconnected society. HKBN's comprehensive range of products and services ensures that customers can rely on us to stay connected and to do business better.

What we do

Residential services

- High-speed fibre broadband
- Mobile services
- Home telephone
- Over-The-Top entertainment & music streaming
- Managed Wi-Fi

Enterprise services

- High-speed fibre business broadband
- Voice communication
- Mobile services
- Data centre services
- Integrated cloud services
- Managed Wi-Fi
- Data connectivity
- System integration

Our Co-Ownership Structure

Unlike most companies, we operate under a unique Co-Ownership Plan which allows all supervisory and management level Talents to voluntarily invest their own savings in the amount of between 2 and 12 months of salary to acquire HKBN stock. Through this dual role as both investors and Talents, our Co-Owners are incentivised with 'skin in the game' to watch over all aspects of HKBN's performance and competitiveness. Far from typical, our dedicated Co-Owners always have the Group's best interest at heart. During this fiscal year period, HKBN had over 330 Co-Owners under Co-Ownership Plan II.

Shareholder Letter

William YEUNG
Co-Owner &
Executive Vice-chairman

Dear fellow shareholders,

As a company passionate about pursuing our Core Purpose, we know there's no better way to substantiate our staunch commitment than by delivering exceptional results. FY18 marks a continuation of our planned J-curve upturn with industry-leading year-on-year growth of 22% for revenue, 13% for EBITDA and 28% for Adjusted Free Cash Flow excluding end-use property purchase, which clearly shows that we are assertively taking revenue market share in an overall flat matured market.

Our FY18 achievements were actually a function of our strategic actions 3–4 years ago, such as our expansion into Over-The-Top ("OTT") content in 2014, and mobile resale in 2016 to complete our residential quad-play, as well as our acquisition of New World Telecom in 2016 which doubled our enterprise presence. At the time of these developments, their success was uncertain and it was only with the benefit of hindsight some 3–4 years later that our results proved they were the right moves. This is why our sequential long-term incentive alignment via Co-Ownership Plan II with 3-year tenures was absolutely key to our success, i.e., this was our **Legal Unfair Competitive Advantage ("LUCA")**. With the expiry of our 3-year Co-Ownership Plan II from 2015, we are now in the process of revamping our Co-Ownership Plan III which we aim to finalise and seek shareholder approval after the outcome of our WTT combination described below.

In August 2018, we announced our company transforming combination with WTT, subject to shareholder and regulatory approvals, which will more than double our enterprise revenue. This combination will scale our ability to compete more effectively in the enterprise space, as to deliver far better solutions to Hong Kong corporates.

Since our IPO in 2015, we are far more "Antifragile" (Note 1) today as we now have a robust quad-play presence in residential and are building a far bigger presence in enterprise. At the IPO, we had no idea that such transformative opportunities would arise, but you can say that we were "lucky" in being ready to pounce on such opportunities as they flew by us. Today, we are far better positioned to deliver upon our Core Purpose to "**Make our Hong Kong a better place to live**".

At the end of the day, every management Key Performance Indicator is merely an input factor. The true measures of company value are the contributions we make to Hong Kong society, and our long-term stock price and actual dividend stream. We believe the best management alignment with stakeholders is for management to pay real money from their family savings to become Co-Owners, i.e., putting real skin-in-the-game, of which we proudly had over 330 in FY18, and to roll this over with successive plans.

Sincerely yours,

William Yeung
Co-Owner and Executive Vice-chairman

NiQ Lai
Co-Owner and Chief Executive Officer

We achieved industry leading

28%

year-on-year growth of Adjusted Free Cash Flow

Note 1: Antifragile. A term coined by Nassim Nicholas Taleb in his book *Antifragile*. Some things benefit from shocks; they thrive and grow when exposed to volatility, randomness, disorder, and stressors and love adventure, risk, and uncertainty.

Board of Directors and Senior Management

1. William YEUNG
2. Yee Kwan Quinn LAW
3. Deborah Keiko ORIDA
4. Bradley Jay HORWITZ
5. Stanley CHOW
6. NiQ LAI

Chairman and Independent Non-executive Director

Mr. Bradley Jay HORWITZ, aged 63, was appointed as an Independent Non-executive Director, the Chairman of the Board and a member of the Audit Committee and the Nomination Committee of the Company on 6 February 2015. Mr. Horwitz has over 30 years of experience in the wireless and telecommunication industry. Mr. Horwitz founded Trilogy International Partners in 2005 and has been the President and the Chief Executive Officer of the company since it was founded. Trilogy International Partners was established to acquire wireless international assets in Haiti and Bolivia and to develop additional international wireless assets, primarily in South America and the Caribbean. Prior to establishing Trilogy International Partners, Mr. Horwitz served as the President of Western Wireless International, having founded the company in 1995 while also serving as the Executive Vice President of Western Wireless Corporation. Previously, Mr. Horwitz was the founder and the Chief Operating Officer of SmarTone Mobile Communications Limited. Mr. Horwitz also worked in various management capacities for McCaw Cellular including serving as the Vice President of International Operations and the Director of Business Development. Mr. Horwitz presently serves as the Director of the Center for Global Development and the Mobile Giving Foundation. Mr. Horwitz graduated from San Diego State University, U.S. with a Bachelor of Science Degree in August 1978.

Executive Directors

Mr. Chu Kwong YEUNG (also known as William YEUNG), aged 57, is the Executive Vice-chairman, an Executive Director, the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Yeung joined the Group in October 2005 as the Chief Operating Officer, overseeing customer engagement, relationship management and network development. In November 2008, Mr. Yeung was appointed as the Chief Executive Officer with the responsibility of developing corporate strategies and overseeing operations. On 1 September 2018, Mr. Yeung was appointed as the Executive Vice-chairman, stepping up to focus on engaging key strategic partners and exploring new business opportunities for the Group. Prior to joining the Group, Mr. Yeung was the Director of customers division at SmarTone Mobile Communications Limited, and served as a police inspector with the Hong Kong Police Force. Mr. Yeung obtained a Bachelor of Arts Degree from Hong Kong Baptist University in December 1992 and obtained a Master of Business Administration Degree from the University of Strathclyde, U.K. in November 1995 and a Master of Science Degree in Electronic Commerce and Internet Computing from the University of Hong Kong in November 2001. In 2010, Mr. Yeung was recognised as Champion of Human Resources by The Hong Kong HRM Awards. Mr. Yeung is a proud Co-Owner of the Company.

Mr. Ni Quiaque LAI (also known as NiQ LAI), aged 48, is the Chief Executive Officer of the Group, and an Executive Director of the Company. Mr. Lai joined the Group in 2004 and has rich experience in the telecommunications, research and finance industries. Mr. Lai was appointed as the Chief Financial Officer in 2006, the Chief Talent & Financial Officer in 2016 and the Chief Operating Officer in 2017. Mr. Lai took the helm as the Chief Executive Officer in September 2018, leading all HKBN Talents to deliver world class products and services to make our Hong Kong a better place to live. Prior to joining the Group, Mr. Lai was an analyst and the Director and the Head of Asia Telecom Research for Credit Suisse, where he was involved in numerous global fund raising initiatives for a wide range of Asian telecom carriers. Prior to Credit Suisse, Mr. Lai held positions in HKT, as a strategic planning manager, and Kleinwort Benson Securities (Asia). He is currently a member of Advisory Board of Citycom Networks Pvt. Ltd. and the Director of Cambodian Children's Fund (Hong Kong) Limited. Mr. Lai graduated from the University of Western Australia with a Bachelor of Commerce Degree in April 1990 and obtained an Executive Master of Business Administration Degree from Kellogg-HKUST, Hong Kong in June 2009. Mr. Lai is a fellow member of Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. In 2009, he was recognised as Champion of Human Resources by The Hong Kong HRM Awards, and was selected by Global Telecoms Business in 2013 as one of the Top 50 CFOs in the industry to watch. In March 2016, he was recognised as 1st for Best CFO by FinanceAsia Survey of Asia's Best Companies 2016 (Hong Kong). Mr. Lai is a proud Co-Owner of the Company.

Non-executive Director

Ms. Deborah Keiko ORIDA, aged 51, was appointed as a Non-executive Director and a member of the Nomination Committee of the Company with effect from 20 November 2015. Ms. Orida is the Senior Managing Director & Global Head of Active Equities at Canada Pension Plan Investment Board ("CPPIB"), a substantial shareholder (as defined in Part XV of the Securities and Futures Ordinance) of the Company. Ms. Orida joined CPPIB in 2009 in Toronto and has held senior leadership roles, including Managing Director, Head of Relationship Investments International, covering Europe and Asia, and was most recently Managing Director and Head of Private Equity Asia. Ms. Orida is responsible for leading Active Fundamental Equities, Relationship Investments, Thematic Investing, Fundamental Equities Asia and Sustainable Investing. Prior to joining CPPIB, Ms. Orida was an investment banker at Goldman Sachs & Co. in New York and Toronto where she advised management teams and boards on mergers and acquisitions and financing transactions. Prior to Goldman Sachs & Co., Ms. Orida was a securities lawyer at Blake, Cassels & Graydon in Toronto. Ms. Orida previously served on the Board of Directors of Nord Anglia Education and the Board of Directors of the Investment Committee of the Bridgepoint Health Foundation and was the Chair of the Board of Directors of Vitalhub Corp., a mobile healthcare startup company. Ms. Orida holds a Master of Business Administration from The Wharton School and a Bachelor of Laws and a Bachelor of Arts from Queen's University, Canada.

Independent Non-executive Directors

Mr. Stanley CHOW, aged 54, was appointed as an Independent Non-executive Director, the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company on 6 February 2015. Mr. Chow has over 21 years of experience as a corporate lawyer in Hong Kong and Canada, including over 18 years of experience in dealing with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during his time in private practice and as a senior manager in the Stock Exchange's Listing Division. Mr. Chow is currently a Non-executive Director of PuraPharm Corporation Limited (stock code: 1498), a company which is listed on the Main Board of the Stock Exchange. Mr. Chow was a partner in the Hong Kong office of Latham & Watkins, an international law firm, from March 2009 to February 2014 where he was the local department chair of the corporate department in Hong Kong. He was also a member of the firm's Initiatives Committee from March 2012 to February 2014. Prior to joining Latham & Watkins, Mr. Chow practised law with Allen & Overy, another international law firm, from November 1996 to January 2009 where he was a partner in its Hong Kong office for over 8 years. As a corporate lawyer in Hong Kong, Mr. Chow has advised on a broad range of corporate finance and mergers and acquisitions transactions, including in the context of the Stock Exchange and the Listing Rules. Prior to Mr. Chow's time in private practice, he was a senior manager in the Stock Exchange's Listing Division from May 1995 to October 1996 and also practised law with Canadian law firms in Hong Kong and Canada. Mr. Chow was a member of The Law Society of Hong Kong's Company Law Committee from August 2011 to October 2018, and was admitted as a solicitor in Hong Kong in 1995 and in England and Wales in 1994. He was also admitted as a barrister and solicitor in British Columbia, Canada in 1994 and in Ontario, Canada in 1991. Mr. Chow graduated from Queen's University, Canada with a Bachelor of Commerce (Honours) Degree in May 1986 and obtained a Juris Doctor with Honour Standing from the University of Toronto, Canada in June 1989.

Mr. Yee Kwan Quinn LAW, SBS, JP, aged 65, was appointed as an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company on 6 February 2015. Mr. Law presently serves as the Deputy Chairman of Professional Conduct Committee of the Hong Kong Institute of Certified Public Accountants. Mr. Law is currently an Independent Non-executive Director of Bank of Tianjin Co., Ltd. (stock code: 1578) and ENN Energy Holdings Limited (stock code: 2688), both of which are listed on the Main Board of the Stock Exchange. Mr. Law presently serves as an advisor of the Hong Kong Business Accountants Association, and he was previously the Director and the Vice President of such Association. From 1 August 2012 to 31 July 2018, Mr. Law was a council member cum Audit Committee Chairman at the Hong Kong University of Science and Technology. From 1 March 2008 to 28 February 2013, Mr. Law was the Deputy Chairman and the Managing Director of the Urban Renewal Authority, a statutory organisation in Hong Kong. Mr. Law is a Fellow of the Hong Kong Institute of Certified Public Accountants and is also a Fellow of the Association of Chartered Certified Accountants. Mr. Law was admitted as an Associate of the Institute of Chartered Secretaries and Administrators on 11 November 1980. In view of Mr. Law's experience in reviewing or analysing audited financial statements of private and public companies, the Directors believe that Mr. Law has the appropriate accounting or related financial management expertise for the purposes of Rule 3.10 of the Listing Rules.

1. **Andrew WONG**
   Co-Owner and Chief Financial Officer
2. **Eric HO**
   Co-Owner and Chief Information Officer
3. **Gary MCLAREN**
   Co-Owner and Chief Technology Officer
4. **Billy YEUNG**
   Co-Owner and Chief Operating Officer – Enterprise Solutions
5. **William YEUNG**
   Co-Owner and Executive Vice-chairman
6. **NiQ LAI**
   Co-Owner and Chief Executive Officer

Senior Management

William YEUNG, his biographical details are set out on page 13.

NiQ LAI, his biographical details are set out on page 13.

Mr. Chan Fai HO (also known as Eric HO), aged 61, the Chief Information Officer of the Group. Mr. Ho joined the Group in July 2012 and is responsible for the Group's information technology strategy development and leads the IT Department to optimise business support and processes through IT system development, integration and management. Prior to joining HKBN, Mr. Ho was the Head of IT and Service Platform at SmarTone Mobile Communications Limited, and before that, he held senior IT positions at Huawei Software Technology, Emperor International Holdings, Westpac, CSL and Bank of America. Mr. Ho was awarded CIO of the Year (Medium Enterprise) jointly conferred by Computerworld Hong Kong and CIO Connect in 2013. Mr. Ho holds a Bachelor's Degree in Science from the University of Hong Kong, a Master Degree in Business Administration Degree from Oklahoma City University, U.S., and a Master in Accountancy Degree from Charles Sturt University, Australia. Mr. Ho is a proud Co-Owner of the Company.

Mr. Tak Wa William YEUNG (also known as Billy YEUNG), aged 52, the Chief Operating Officer of HKBN Enterprise Solutions Limited, a wholly-owned subsidiary of the Company. Mr. Yeung joined the Group in January 2013 and leads a team of sales professionals to service corporates of all sizes and carrier customers. In 1995, Mr. Yeung pioneered the Netplus regional Internet backbone for telecommunication carriers in Asia Pacific. While at PCCW, Mr. Yeung developed the Netvigator Internet service. In 2004, Mr. Yeung branched out to spearhead Y5Zone in Hong Kong. In nine years, he steered the company to become one of the largest wholesale WiFi suppliers in Hong Kong, which was acquired by HKBN Group Limited in January 2013. Mr. Yeung holds a Master of Business Administration Degree from the University of Birmingham, U.K. Mr. Yeung is a proud Co-Owner of the Company.

Mr. Gary Alexander MCLAREN, aged 55, the Chief Technology Officer of the Group. Mr. McLaren joined the Group in June 2015 and is responsible for network development and operations, including broadband networking, IPTV, wireless applications as well as VoIP networks. A native of Australia, Mr. McLaren has over 30 years of experience in bringing new digital technologies to market with a specialised focus on broadband network development. He has worked in Australia, Germany, Singapore and now Hong Kong, where he is leading HKBN's cutting edge technology deployments. Prior to joining HKBN, he was the Chief Technology Officer of NBN Co and held senior corporate executive positions at technology startups (Utiba Pte, Request DSL) and multinationals (Telstra and Siemens). Mr. McLaren holds a Bachelor's Degree in Law and a Bachelor's Degree in Engineering (Electrical), both from the University of Melbourne. Mr. McLaren is a proud Co-Owner of the Company.

Mr. Yue Kit Andrew WONG, aged 39, the Chief Financial Officer of the Group. Mr. Wong joined the Group in 2006. Mr. Wong has extensive experience in the external auditing, accounting and finance, internal control and compliance. He leverages over 16 years of auditing and finance experience to guide his leadership of the Group's finance and investor relations endeavours. Mr. Wong holds a Bachelor's Degree in Accounting and Law from the University of Manchester, U.K. and an Executive Master of Business Administration Degree from the Chinese University of Hong Kong. He is also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong is a proud Co-Owner of the Company.

In everything we do – from the way we operate to the decisions we take – our ultimate purpose and ambition seeks to

"Make our Hong Kong a Better Place to Live".

For this reason, we have always sought out market inadequacies and followed up with action to do better. In terms of our business, a legacy of delivering innovation as well as exceptional product and service experiences has provided customers with high-value satisfying benefits and given us the results we want – ever expanding growth with improved profitability.

Being a purpose-driven company means we also measure success in ways beyond financial performance. As an employer in Hong Kong and mainland China, we take great pride – and lead by example – in how HKBN Talents are treated as priority number one. Through a range of initiatives, our workplace environment and corporate culture provide Talents with excellent work flexibility to enjoy life and perform efficiently, as well as offer development and entrepreneurship opportunities which ensure they flourish professionally, and much more.

Driving prosperity should be a two-way street. The relationships which exist between HKBN and our business partners and suppliers are built on mutual trust, respect, fairness and rigorous compliance of the respective laws and regulations. Paramount is the concept of win-win partnerships. To this end, we want all our partners to work with us to make money together, rather than off each other.

By actively embracing our role in the community, we believe HKBN has a responsibility to uplift and empower, especially for people of underprivileged circumstances. Above all, our approach, which we term Corporate Social Investment ("CSI"), favors investing and collaboration over philanthropic donations to help our local communities become gainfully self-sufficient.

As a technology-based company, our goal is to be smarter for the good of our planet. This we achieve by utilising the latest eco-friendly solutions and ideas to help us become operationally efficient in terms of energy consumption, waste reduction, recycling, cutting down on our carbon footprint and more.

HKBN ESG FRAMEWORK

Innovation for Customers

- Innovate for better and more accessible services
- Uphold fair and transparent marketing communication
- Improve customer privacy protection
- Promote healthy content & usage

Minimising Environmental Footprint

- Increase energy efficiency of overall operations
- Minimise overall waste impact

Technology & Expertise for Community Betterment

- Utilise HKBN's expertise in technology & business to make sustainable social impact
- Empower Talents to serve the Hong Kong community

Total Rewards for Talents

- Champion LIFE-work priority & life-long development
- HKBN Co-Ownership fosters interest alignment for sustainable business growth and service excellence
- Create pride & passion by pursuing difference-making purpose for Hong Kong
- Incentivise excellence via performance-based remuneration

Responsible & Win-Win Supply Chain Partnership

- Procure responsibly and ethically
- Pursue long-term win-win relationships with suppliers

Pursue Purposeful Profits

With HKBN Co-Ownership, we drive disruptive innovation to harvest substantial and sustainable benefits for Hong Kong and our stakeholders. Throughout this journey, our aim is to work beyond mere compliance of laws and regulations.

Our ESG Commitment

In everything we do, and in every decision we take, "Make our Hong Kong a Better Place to Live" is omnipresent at all times. With this driving us, HKBN is built on making purposeful profits. We believe our business is best served by creating positive social impact. When we do this right, our Talents will have passion to execute, and profits will follow.

Our Environment, Social and Governance ("ESG") policy is purposely aligned with our Group's overall corporate strategy. This approach ensures that in all aspects of our business and operations, actions are rigorously executed with society, the environment and corporate governance that aims to go beyond merely fulfilling legal and regulatory requirements embedded – consistent with our core purpose mantra. As such, ESG factors play a major role in shaping the underlying drivers which define our sustainable growth. For us, ESG serves both to inform our strategies and to measure our performance in five key stakeholder areas. They are:

- Innovation for Customers
- Total Rewards for Talents
- Responsible & Win-Win Supply Chain Partnerships
- Technology & Expertise for Community Betterment
- Minimising Environmental Footprint

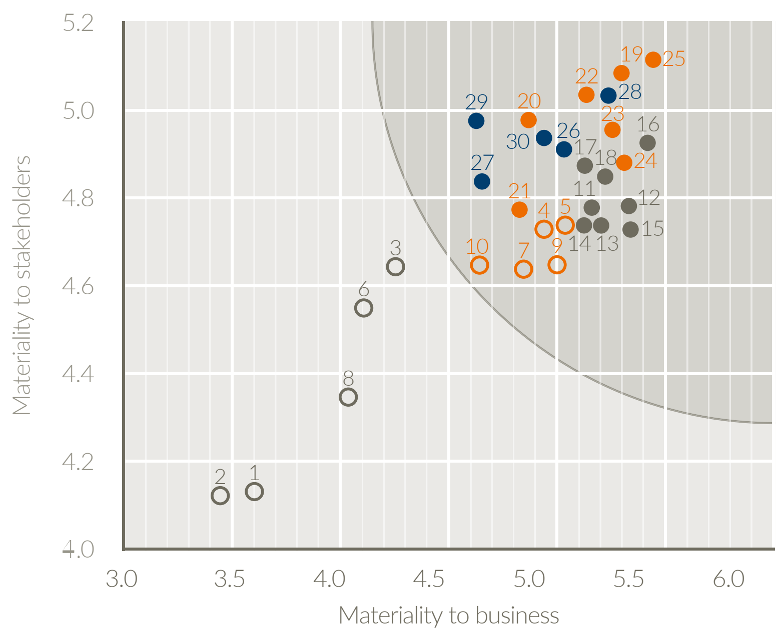
By striving to address these prioritised goals (please refer to the ESG Framework illustrated above for details,) we can better improve HKBN's prospects for business, minimise the risks affecting the Group, as well as enhance our reputation. When these issues are addressed, overall performance will increase to deliver profits in a purposeful way.

In preparing this report, we have adhered to the reporting principles and the "comply or explain" provisions set forth by the Stock Exchange's ESG Guide for FY18. Unless specifically stated otherwise, the scope of ESG reporting herein covers all aspects of our HKBN Group operations in Hong Kong, as well as in Shenzhen and Guangzhou.

Our Material Approach

Through our Materiality approach, we provide a transparent window into HKBN's pertinent economic, social and governance aspects to address and report upon. Viewed in their entirety, our strategy and performance in the material issues demonstrates how we tackle ESG-related aspects which are considered most important to the Group and our stakeholders.

Environmental, Social and Governance Materiality Matrix



During FY18, with the participation of executive team heads from all facets of our operations, we conducted a workshop to prioritise HKBN's material sustainability concerns.

Communicating and listening to our stakeholders helps enlighten our understanding of key priorities from a sustainability perspective. In FY17, we appointed an independent consultant to administer a comprehensive materiality assessment on the environment, social and governance aspects of HKBN. Informing this process, online surveys, focus group workshops and interviews were conducted with different external stakeholders (i.e. customers, suppliers, community partners and regulators) and internal stakeholders (i.e. Co-Owners and non-Co-Owner Talents). Out of these exercises, we identified a number of material issues important for the business. (For details, please refer to the ESG Materiality Matrix above and the table on the next page.)

HKBN FY17 Materiality Assessment

			Aspects	Material to HKBN?
Environment	○	1	Minimising emission of air pollutants	No
	○	2	Proper discharge of sewage	No
	○	3	Treatment of hazardous waste	No
	○	4	Minimising generation of waste	Yes
	○	5	Recycling of electric waste	Yes
	○	6	Minimising emission of greenhouse gas	No
	○	7	Energy efficiency	Yes
	○	8	Maximising water efficiency	No
	○	9	Minimising use of paper	Yes
	○	10	Minimising the use of packaging materials	Yes
Employment and Labour Standards	●	11	Dismissal and compensation policy	Yes
	●	12	Talent retention	Yes
	●	13	Working hours	Yes
	●	14	Equal opportunity and diversity	Yes
	●	15	Talent benefits	Yes
	●	16	Employee health and safety	Yes
	●	17	Employee training and development	Yes
	●	18	Respect Labour rights	Yes
Product Responsibility	●	19	Service reliability and affordability	Yes
	●	20	Customer health and safety	Yes
	●	21	Fair and just marketing and advertising approach	Yes
	●	22	Clear terms of service termination	Yes
	●	23	Understanding customer satisfaction	Yes
	●	24	Respecting intellectual property rights	Yes
	●	25	Customer privacy	Yes
Economy and Community	●	26	Expanding service network to remote areas	Yes
	●	27	Community investment	Yes
	●	28	Anti-corruption	Yes
	●	29	Managing environmental and social performance of suppliers	Yes
	●	30	Promote innovation and embed innovation to services	Yes

This year, with the help of an independent consultant, our various department heads further refined our ESG priorities based on FY17's materiality assessment results, and as they pertain to HKBN's principal risks. These executive team heads, representing all facets of the Group's activities, attended a one-day strategic workshop to help prioritise the Group's material sustainability concerns, evaluating each issue based on their actual impact to our operations.

Crucially, this exercise enables us to concentrate on the issues which matter most to our success and our stakeholders. The quantitative results gathered has not only facilitated the formulation of HKBN's ESG framework – our guide for on-going strategies in ESG – but also set the foundation from which our efforts will focus throughout FY18 and beyond.

The following table highlights the many issues identified important to our Group from a perspective of sustainability:

Our Priorities

Stakeholders	Key Priorities	Other Priorities
1) Customers	• *Service reliability, coverage and affordability* Provide best value to customers and make services more accessible to those living in locations currently not served by our network coverage • *Fair and transparent sales and marketing approach* Empower potential and current customers to make informed decisions regarding our services and products • *Customer privacy* Treat customer data with utmost priority and ensure customer privacy is protected at all times	• *Accessibility for information and assistance* Offer great customer experience through the appropriate channels for information and service • *Promote innovation and embed innovation in our services* Offer disruptive customer experiences and new service options via applying innovative technology • *Safeguard customer health and product safety* Ensure all HKBN products and services are safe and healthy for our customers
2) Talents	• *LIFE-work priority* Empower Talents to enjoy happy, healthy and productive lives which drive HKBN's capabilities to innovate and stay competitive • *Fairly rewarded remuneration* Drive excellence in Talent performance via "pay for performance" culture	• *Co-Ownership* Align HKBN Talent interests with shareholders to drive business success • *Talent development* Empower Talents to grow and develop
3) Suppliers	• *Effective communication and understanding of supplier satisfaction* Establish long-term win-win partnership with suppliers • *Ensure compliance with HKBN's supplier code of conduct* Align suppliers' practices with HKBN's ESG practices to drive responsible and purposeful profits	
4) Community	• *Technology for Good* Leverage HKBN's competitive advantage in technology to promote cyber wellness and narrow the digital divide in local communities • *Talent volunteering* Leverage Talent expertise to contribute to the local community	
5) Environment	• *Carbon emissions reduction* Fight climate change by smart and efficient use of energy • *Waste minimisation* Enable an integrated waste system to contribute towards a sustainable planet	

Mindful that a materiality list should not be static, we will review (via materiality assessments conducted on a regular basis) the relevance of all material topics and ascertain whether there is any shift in priorities among our external and internal stakeholders.

Our ESG Governance Structure

Board of Directors	The Board of Directors (the "Board") oversees and is accountable for HKBN's ESG strategy, development and performance.
Management Committee	Our Management Committee, led by the CEO and composed of the Executive Vice-chairman, COO-Enterprise Solutions, CIO, CTO and CFO, is responsible for formulating HKBN's ESG strategy. Together they oversee the development, execution and reporting of our ESG performance. The Committee provides ESG updates to the Board of Directors on a regular basis.
ESG Taskforce	Led by the Head of Talent Engagement & Corporate Social Investment, the ESG Taskforce consists of representatives from CSI, Audit & Risk, Legal & Compliance, and Corporate Communications departments, which co-ordinates ESG planning and implementation throughout HKBN, including guiding and collaborating with business units to deliver and monitor progress on the pre-set ESG goals and objectives. The Taskforce conducts periodic reviews with business units, reports on ESG performance and benchmarks the latest ESG trends that impact HKBN's ESG strategy to the Management Committee regularly.
Business Units	At the execution level, representatives from different business units drive and coordinate actions, as well as review progress made towards our ESG commitments.

We have been conferred with the following awards, which recognised the impact and performance made by our sustainability efforts.

HONG KONG SUSTAINABILITY AWARD 香港可持續發展獎 2016/17 Certificate of Excellence

Certificate of
Excellence in Large Organization Category — Hong Kong Sustainability Award 2016/17
by ***The Hong Kong Management Association***

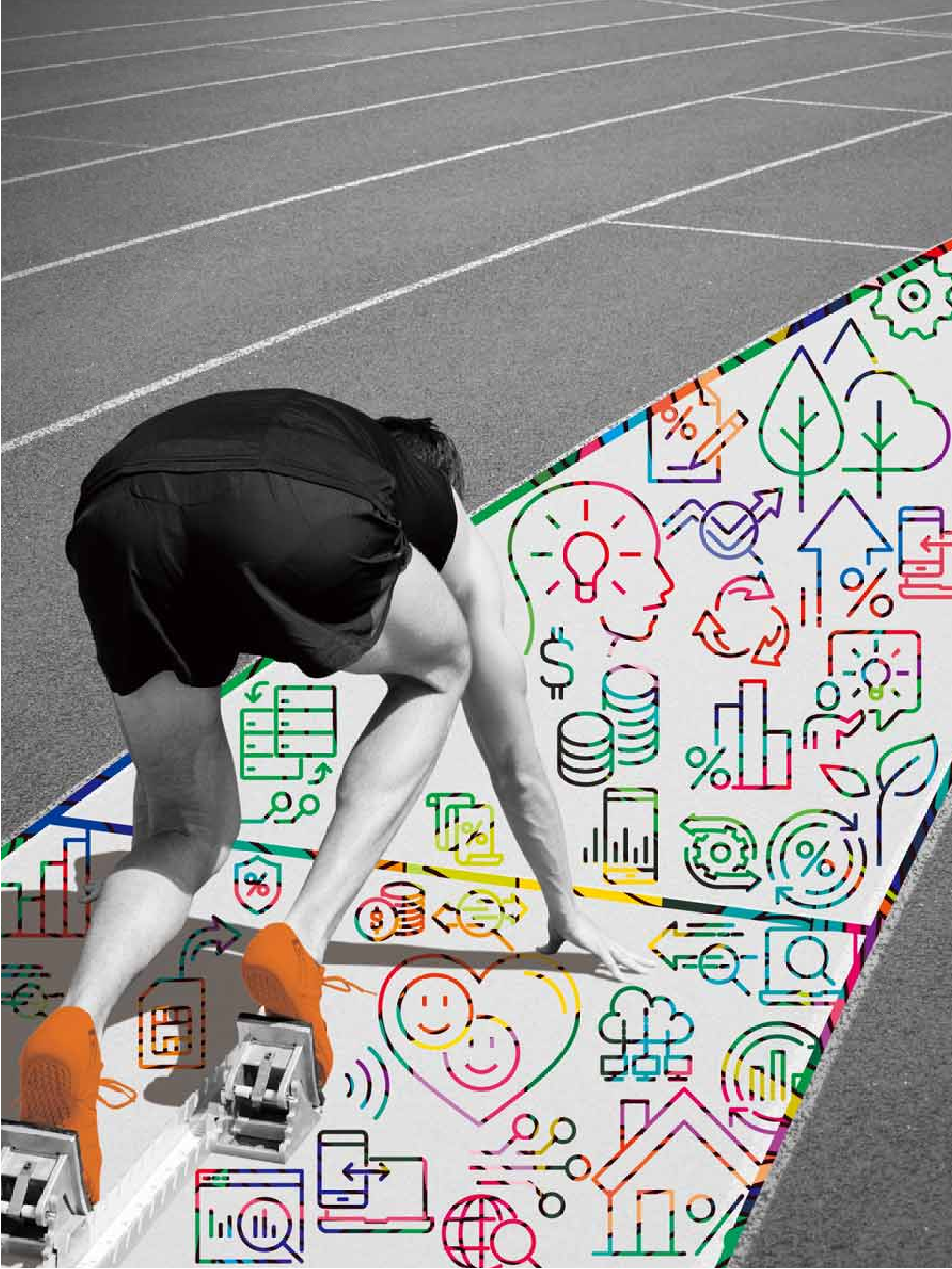
Hang Seng Corporate Sustainability Index Series Member 2017-2018

Constituent Member of
Hang Seng Corporate Sustainability Benchmark Index
by ***Hang Seng Indexes Company Limited***

Our Performance

From enhancing residential quad-play to bolstering enterprise solutions, we're taking advantage of diversified opportunities to further endow our business with improved prosperity upside.

Besides offering a comprehensive business review, we also look at how key issues and endeavours important to our Group and stakeholders were steadfastly attended to throughout FY18.



Key Financial and Operational Summary

Table 1: Financial highlights

For the year ended 31 August

	2018	2017	Change YoY
Key financials ($'000)			
Revenue	**3,948,952**	3,232,310	+22%
– Residential	**2,278,241**	1,958,286	+16%
– Enterprise	**1,379,183**	1,208,136	+14%
– Product	**291,528**	65,888	>100%
Profit for the year	**396,897**	171,110	>100%
Adjusted Net Profit [1, 2]	**575,423**	377,839	+52%
EBITDA [1, 3]	**1,179,588**	1,041,250	+13%
EBITDA margin [1, 4]	**29.9%**	32.2%	-2.3pp
Adjusted Free Cash Flow [1, 5]	**578,499**	453,365	+28%
Reconciliation of Adjusted Net Profit [1, 2]			
Profit for the year	**396,897**	171,110	>100%
Amortisation of intangible assets	**129,627**	129,202	+0%
Deferred tax arising from amortisation of intangible assets	**(20,164)**	(20,094)	+0%
Originating fee for banking facility expired	**49,275**	73,397	-33%
Transaction costs in connection with business combination	**1,757**	–	+100%
Transaction costs in connection with proposed business combination	**18,031**	–	+100%
Loss on disposal of properties	**–**	24,224	-100%
Adjusted Net Profit	**575,423**	377,839	+52%

For the year ended 31 August

	2018	2017	Change YoY
Reconciliation of EBITDA & Adjusted Free Cash Flow [1, 3, 5]			
Profit for the year	**396,897**	171,110	>100%
Finance costs	**117,288**	210,740	-44%
Interest income	**(1,641)**	(276)	>100%
Income tax	**92,371**	86,044	+7%
Depreciation	**425,258**	420,206	+1%
Amortisation of intangible assets	**129,627**	129,202	+0%
Transaction costs in connection with business combination	**1,757**	–	+100%
Transaction costs in connection with proposed business combination	**18,031**	–	+100%
Loss on disposal of properties	**–**	24,224	-100%
EBITDA	**1,179,588**	1,041,250	+13%
Capital expenditure*	**(394,480)**	(403,702)	-2%
Net interest paid	**(101,935)**	(107,848)	-5%
Other non-cash items	**1,324**	6,994	-81%
Income tax paid	**(116,234)**	(122,605)	-5%
Changes in working capital#	**10,236**	39,276	-74%
Adjusted Free Cash Flow	**578,499**	453,365	+28%

* *Excluded $39 million partial payment for the purchase of a property in Shatin, which was completed in September 2018.*

\# *Excluded deposit of $33 million paid on acquisition of Cosmo True Limited, a property holding company holding the two network centres currently occupied by the Group, which was completed in September 2018.*

Table 2: Operational highlights

For the year ended 31 August

	2018	2017	Change YoY
Residential business			
Fixed telecommunications network services business			
Residential homes passed ('000)	**2,297**	2,249	+2%
Subscriptions ('000)			
– Broadband	**860**	871	-1%
– Voice	**500**	518	-3%
Market share [6]			
– Broadband	**36.3%**	37.0%	-0.7pp
– Voice	**21.8%**	22.2%	-0.4pp
Broadband churn rate [7]	**1.1%**	0.9%	+0.2pp
Residential ARPU [8]	**$176**	$168	+5%
Mobile business			
Subscriptions ('000)	**265**	147	+80%
– Mobile (without broadband services)	**137**	78	+76%
– Mobile (with broadband services)	**128**	69	+86%
Mobile ARPU			
– Mobile (without broadband services) [11]	**$147**	$119	+24%
– Mobile (with broadband services) [12]	**$321**	$268	+20%
Residential customers ('000)	**1,017**	994	+2%
Enterprise business			
Commercial building coverage ('000)	**2.4**	2.3	+4%
Subscriptions ('000)			
– Broadband	**57**	53	+8%
– Voice	**140**	132	+6%
Market share [6]			
– Broadband	**19.3%**	18.9%	+0.4pp
– Voice	**7.7%**	7.2%	+0.5pp
Enterprise customers ('000)	**57**	54	+6%
Broadband churn rate [9]	**1.2%**	1.7%	-0.5pp
Enterprise ARPU [10]	**$1,510**	$1,463	+3%
Total full-time permanent Talents	**2,981**	2,888	+3%

Notes:

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

(2) Adjusted Net Profit means profit for the year plus amortisation of intangible assets (net of deferred tax credit and direct cost incurred in corresponding period), non-recurring finance costs and other non-recurring items. Non-recurring finance costs, in the year under review, include originating fee for banking facility expired. Other non-recurring items, in the year under review, include loss on disposal of properties, transaction costs in connection with business combination and transaction costs in connection with proposed business combination.

(3) EBITDA means profit for the year plus finance costs, income tax expense, transction costs in connection with business combination, transaction costs in connection with proposed business combination, loss on disposal of properties, depreciation and amortisation of intangible assets (net of direct cost incurred in corresponding period) and less interest income.

(4) EBITDA margin means EBITDA divided by revenue.

(5) Adjusted Free Cash Flow means EBITDA plus interest received and less capital expenditure, interest paid and tax paid, and adjusted by changes in working capital and other non-cash items. Working capital includes other non-current assets, inventories, trade receivables, other receivables, deposits and prepayments, trade payables, deposits received and deferred services revenue. Other non-cash items, in the year 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 July 2018 market data, total market figures from January 2016 to November 2016 were revised to reflect the adjustments filed by the Internet Service Provider(s).

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

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

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

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

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

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

Management Discussion & Analysis

Business Review

During the year ended 31 August 2018, the Group delivered a solid set of operational and financial results. This was driven by the successful execution of the quad-play price strategy that delivered comprehensive, integrated and high value-for-money services to our customers, which rewarded the Group with higher ARPU at a low monthly churn rate in return. Moreover, the enterprise business continued to prosper after the successful integration with NWT last year. As a result, our Group revenue, EBITDA and Adjusted Free Cash Flow increased year-on-year by 22%, 13% and 28%, respectively, to $3,949 million, $1,180 million and $578 million.

- Residential revenue increased 16% year-on-year to $2,278 million in FY18, mainly led by the following:

  For broadband services, historical full base residential ARPU has increased by 5% year-on-year, from $168/month to $176/month, while our total number of residential customers has surpassed the 1 million mark as at 31 August 2018. Nonetheless, we also experienced a net loss in broadband subscriptions due to the churning of price sensitive customers. Our market share by broadband subscriptions decreased slightly to 36% as at 31 July 2018 (based on the latest available OFCA statistics).

  Mobile services were one of the key revenue growth drivers in FY18, where the number of activated subscribers grew by 80% year-on-year to 265,000 and the mobile ARPU increased by 24% year-on-year to $147/month in FY18. This spectacular growth was made possible by our progressive marketing efforts and the launch of high usage data plans to suit our customers' needs.

  OTT services also flourished in FY18, whereby the number of set-top boxes ordered has increased by 59% year-on-year to 835,000 as at 31 August 2018. This represented that the majority of our residential broadband customers have ordered at least one OTT set-top box to enjoy a great archive of content provided by our OTT partner delivered through our hi-speed and stable network service.

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

- Enterprise revenue increased by 14% year-on-year to $1,379 million. During the year, we achieved net additions of 3,000 year-on-year for a total of 57,000 enterprise customers while our enterprise ARPU improved by 3% year-on-year, from $1,463/month to $1,510/month. The fully integrated business increased both our presence and capabilities in the enterprise market, which has enabled us to provide a broader range of products and services at competitive value to different customer segments. This has driven the continuous expansion of our customer base as well as drive more and more new projects of larger contract sums in the market. Our market share by broadband subscriptions increased to 19% as at 31 July 2018 (based on the latest available OFCA statistics).

- Product revenue increased by 342% year-on-year to $292 million, mainly due to the increased sales of smartphone products that complements our mobile business.

Network costs and costs of sales increased by 76% year-on-year to $1,247 million mainly due to the increase in cost of inventories for the sale of mobile handsets by 501% year-on-year to $273 million and the increase in network costs and cost of services by 47% year-our-year to $974 million. The increase in network cost is mainly due to the significant increase in Mobile Virtual Network Operator ("MVNO") costs, which is in line with the significant increase in residential revenue.

Other operating expenses comprised mainly of advertising and marketing expenses, Talent costs, depreciation, amortisation and office expenses. The slight increase of 2% year-on-year from $2,067 million to $2,117 million was mainly due to the increase in advertising and marketing expenses by 6% year-on-year to $605 million. The increase in advertising and marketing expense is mainly due to the increase in sales efforts to support our progressive expansion in mobile business and our quad-play price strategy. This is slightly offset by the decrease in Talent cost by 2% year-on-year to $490 million mainly due to decrease in equity-settled share-based payment expenses and on-going efforts to drive productivity.

Finance costs decreased by 44% year-on-year from $211 million to $117 million mainly due to the fair value gain on the interest-rate swap of $59 million recognised in FY18 versus a $17 million loss in FY17. In addition, the finance costs in relation to the write-off of unamortised transactions cost upon bank loan refinancing also decreased from $73 million in FY17 to $49 million in FY18.

Income tax increased slightly by 7% year-on-year from $86 million to $92 million. Our finance costs were not tax deductible. Income tax as a percentage of profit before taxation and finance costs (the "effective tax rate") was approximately 15% and 18%, respectively, for year ended 31 August 2018 and 31 August 2017. The effective tax rate was lower than the statutory income tax rate due to the utilisation of tax losses that were not previously recognised as deferred tax assets.

As the result of the aforementioned factors, profit attributable to equity shareholders increased to $397 million.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets, non-recurring finance costs and non-recurring items, increased by 52% year-on-year to $575 million.

EBITDA rose by 13% year-on-year to $1,180 million mainly driven by the services revenue growth while managing EBITDA margin at 29.9%.

Adjusted Free Cash Flow rose by 28% year-on-year to $578 million mainly due to an increase in EBITDA, lowered capital expenditure and net interest paid, offset by the lowered cash inflow from working capital changes.

Additions to property, plant and equipment amounted to $431 million for the year ended 31 August 2018, as compared to $364 million last year.

Outlook

Despite the potential for economic slow down, the nature of our services makes us recession resilient and we are well prepared for what may happen. We will focus on harvesting our substantially invested network and our monthly billing relationship by upselling more services through OTT and MVNO partnerships, as well as leverage our comprehensive suite of service offerings to drive sustainable growth in revenue, EBITDA and Adjusted Free Cash Flow through the following initiatives:

- To expand our quad-play bundle plans to multi-play to drive APRU and subscription growth and disrupt the legacy broadband, fixed-voice, multimedia content and mobile standalone services;
- Further penetrate the enterprise market through our broad range of business-imperative services and more network capacity;
- Fully unlock the potential of the newly acquired cloud solutions and system integration service provider, I Consulting Group Limited ("ICG"), by upselling the new service offerings to our large customer base;
- Plan ahead for the proposed merger with WTT Holding Corp., subject to closing conditions, in order to maximise the potential synergy benefits and to better serve the business community; and
- Continue to cultivate our Talent-oriented Co-Ownership culture that aligns risks and rewards with shareholders by extending the invitation to a broader base of HKBN Talents in the revamped Co-Ownership Plan III after the closing of the proposed WTT merger*.

Liquidity and Capital Resources

As at 31 August 2018, the Group had total cash and cash equivalents of $373 million (31 August 2017: $385 million) and gross debt (principal amount of outstanding borrowing) of $3,900 million (31 August 2017: $3,900 million), which led to a net debt position of $3,527 million (31 August 2017: $3,515 million).

- The Group's gearing ratio, which was expressed as a ratio of the gross debt over total equity, was 3.8x as at 31 August 2018 (31 August 2017: 3.5x).
- The Group's net debt to EBITDA ratio, which was expressed as a ratio of the gross debt net of cash and cash equivalents over EBITDA, was 3.0x as at 31 August 2018 (31 August 2017: 3.4x).

For the detail of WTT Merger, please refer to "Significant Investments, Acquisition and Disposals" on pages 32 and 33.

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 31 August 2018 and 31 August 2017. As at 31 August 2018, the Group had an undrawn revolving credit facility of $200 million (31 August 2017: $200 million).

Under the liquidity and capital resources condition as at 31 August 2018, the Group can fund its capital expenditures and working capital requirements for the financial year ending 31 August 2019 with internal resources and the available banking facilities.

Hedging

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

In connection with the bank loan, the Group entered into an interest-rate swap arrangement in the principal amount of $2,635 million with an international financial institution for a term of 3.5 years from 23 February 2015 to 23 August 2018. Benefiting from the hedging arrangement, the Group fixed the HIBOR interest rate exposure at 1.453% per annum.

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

These interest-rate swap arrangements are recognised initially at fair value and remeasured at the end of each reporting period. The interest-rate swaps do not qualify for hedge accounting under HKAS 39, *Financial instruments: Recognition and measurement*, and therefore, they are accounted for as held for trading and measured at fair value through profit or loss.

Charge on Group Assets

As at 31 August 2018 and 31 August 2017, no assets of the Group were pledged to secure its loans and banking facilities.

Contingent Liabilities

As at 31 August 2018, the Group had total contingent liabilities of $7 million (31 August 2017: $4 million) in respect of bank guarantees provided to suppliers and utility vendors in lieu of payment of utility deposits.

Exchange Rates

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

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

Significant Investments, Acquisitions and Disposals

On 7 August 2018, the Company, its direct wholly-owned subsidiary Metropolitan Light Company Limited ("MLCL"), TPG Wireman, LP ("TPG Wireman") and Twin Holding Ltd ("Twin Holding") entered into a merger agreement, pursuant to which, among other things, MLCL has conditionally agreed to purchase, and TPG Wireman and Twin Holding have conditionally agreed to sell, the entire issued share capital in WTT Holding Corp. ("WTT Holding") for an aggregate consideration of $5,489,756,860, of which: (i) $3,548,819,204, will be satisfied by the allotment and issuance of consideration shares; and (ii) $1,940,937,656 will be satisfied by issuance of vendor loan notes (the "Vendor Loan Notes") (the "WTT Merger"). The consideration shares and the conversion shares convertible under the Vendor Loan Notes will be allotted and issued pursuant to a specific mandate to be sought from the shareholders at the extraordinary general meeting of the Company to be held on 16 November 2018. Following completion of the WTT Merger, WTT Holding and all of its subsidiaries will become indirect wholly-owned subsidiaries of the Company and their financial information will be consolidated into the accounts of the enlarged Group. Please refer to the announcement of the Company dated 7 August 2018 and the circular of the Company dated 26 October 2018 for further details.

On 17 August 2018, HKBN Group Limited ("HKBNGL"), an indirect wholly-owned subsidiary of the Company, entered into a binding memorandum of understanding with Hong Kong Television Network Limited ("HKTNL"), pursuant to which HKBNGL proposes to acquire, and HKTNL proposes to sell or procure the sale of, the entire issued share capital of Cosmo True Limited (宇正有限公司) ("CTL") at a consideration of $329,218,608.55 (the "CTL Acquisition"). Upon completion of the CTL Acquisition, HKBNGL will own the entire issued share capital in CTL. Following completion of the CTL Acquisition, CTL will become an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated into the Group. Please refer to the announcements of the Company dated 17 August 2018 and 26 September 2018 for further details.

Save as disclosed, the Group did not make any significant investments, acquisitions or disposals in relation to its subsidiaries and associated companies during the year ended 31 August 2018.

Talent Remuneration

As at 31 August 2018, the Group had 2,981 permanent full-time Talents (31 August 2017：2,888 Talents). The Group provides remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and dependent on both the Group's and individual performances. The Group also provides comprehensive medical insurance coverage, competitive retirement benefits schemes, and Talent training programmes.

To attract, retain and motivate skilled and experienced Talents, the Company adopted a Co-Ownership Plan II on 21 February 2015. Co-Ownership is a powerful expression of the commitment and belief our Talents have in the Group. Unlike the more traditional approach of giving stock options to a very limited group of senior executives, the Company's Co-Ownership is open to all supervisors and above level Talents, spanning the Group's operations across Hong Kong and Guangzhou. Under Co-Ownership Plan II, we had over 330 Co-Owners in FY18. On their 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.

To provide additional means for the Company to incentivise its Talents and to recognise the continual support of the relevant employees to the Group and their effort in promoting the Group's long-term growth and development, the Company adopted a Co-Ownership Plan III (the "Co-Ownership Plan III") on 15 December 2017. For details of the Co-Ownership Plan III, please refer to the announcement of the Company dated 2 November 2017 and the circular of the Company dated 16 November 2017. As at 31 August 2018, there are approximately 650 Talents that are eligible to participate in Co-Ownership Plan III, representing approximately 22% of the total number of existing employees of the Group. No invitations or grants under the Co-Ownership Plan III have been made as the Board has suspended the operation of the Co-Ownership Plan III until the finalisation of the proposed WTT Merger. Please refer to the announcement of the Company dated 7 August 2018 for further details.

Please refer to "Share Incentive Scheme" under "Report of the Directors" on page 40 for a summary of the Co-Ownership Plan II.

Report of the Directors

The Directors are pleased to present their report and the audited consolidated financial statements for the year ended 31 August 2018.

Principal Activities

HKBN Ltd. (the "Company", together with its subsidiaries, the "Group") is an investment holding company. The Group is Hong Kong's largest provider of residential high speed fibre broadband (symmetrical 100Mbps to 1,000Mbps) services by number of subscriptions, and a fast-growing enterprise solutions provider. The Group offers a wide range of telecommunications solutions for residential and enterprise markets, encompassing broadband, Wi-Fi, mobile, cloud solutions, data connectivity, data facilities, system integration and voice communications. Through partnerships with OTT content service providers, the Group also offers OTT entertainment to the market.

Business Review

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year, and the future developments of the Group's business, are set out in the chapters headed "Shareholder Letter" and "Management Discussion and Analysis" on pages 10 to 11 and pages 30 to 33 of this annual report.

Analysis Using Financial Key Performance Indicators

Details of the financial key performance indicators can be found in the chapters headed "Key Financial and Operational Summary" and "Management Discussion and Analysis" on pages 26 to 29 and pages 30 to 33 of this annual report.

Principal Risks and Uncertainties

The Directors are aware that the Group is exposed to a variety of risks, some are specific to the industry in which the Group operates while others are common risks that most businesses face. Procedures have been established by the Directors to ensure significant risks that may adversely affect the Group's operation and performance are identified and corresponding measures are in place to mitigate those risks. For key risks related to the Group's businesses and to the industries in which the Group operates, please refer to Corporate Governance Report on pages 96 to 108. If any of these events occur, the Group's businesses, financial conditions, results of operations and/or prospects of the Group could be materially and adversely affected. These key risks are by no means exhaustive or comprehensive, and there may be other risks, in addition to those highlighted, which are not known by the Group or which may not appear significant now but could turn out to be so in the future.

Environmental Policies and Performance

As an environmentally responsible business, HKBN is constantly exploring better, more efficient ways to minimise carbon emissions and operational waste with a vision to "Make our Hong Kong a Better Place to Live". We have integrated environmental considerations into our business process and strive to reduce the impact of our environmental footprint.

With the implementation of our Environmental Policy since 2017, we have adopted various initiatives to continually improve our energy efficiency and management. Our investment in facilities enhancements and chiller plant replacement has achieved positive results in meeting our targets of reducing electricity consumption throughout our office. In addition, we have collaborated with our vendors to implement several recycling programs to reduce e-waste, plastic, paper waste and other operational waste.

More information about the Group's environmental performance is set out in the chapter headed "Environment" on pages 86 to 93 of this annual report.

Relationships with Key Stakeholders

Talents

At HKBN, people are Talents, not staff. Talents are our investment, with each individual possessing their own respective skills and values. Our sustained success is attributed to a very simple philosophy, that is to provide the very best value, experience and opportunities to Talents so as to attract, retain and motivate the very best to work for our Company. In this light, we seek to not only comply with but exceed the legal requirements set by the Employment Ordinance and other laws and regulations related to employee welfare and working conditions, with a view to inspiring other companies to follow and make Hong Kong a better place to work.

Under the Sex Discrimination Ordinance, Family Status Discrimination Ordinance and Race Discrimination Ordinance, it is unlawful for any person or organisation to discriminate against another person (male or female) on the basis of gender, marital status, pregnancy or family status or; discriminate, harass or vilify a person on the grounds of their ethnicity. At HKBN, we are committed to preventing discrimination and treating all acts of discrimination with zero tolerance. Likewise, forced labour of any kind is not allowed. In line with the Employment Ordinance, we will not employ any children aged under 13. For the protection of children (under the age of 15) and young persons (aged 15 but under 18), the Company shall only employ young Talents in strict compliance with the Employment of Children Regulations and the Employment of Young Persons (Industry) Regulations.

All Talents who suffer injury arising out of and during work are covered by and entitled to compensation which exceeds the legal requirements stipulated under the related provision of the Employees' Compensation Ordinance.

To apply empathy, our '9am to 5pm Flexible Working Hour Policy' enables Talents to work 8 hours (including a 1-hour-15-minute lunch break) instead of the typical 9-hour standard. Under Flexi Working Hours arrangement, non-shift Talents can decide to start their working day between 8:30am to 10:00am. All non-shift duty Talents may also enjoy a 1-hour and 15-minute lunch break taken flexibly between 12:00pm and 2:30pm. In addition, full-time Talents who are not required to provide onsite support duties, may apply, subject to supervisor approval, to work via mobile office during normal working days.

To ensure that our Talent engagement policies are appropriately conveyed, each new Talent is required to undergo an orientation and provide their acknowledged understanding of our Talent Handbook, which can be accessed any time via our Intranet. Whenever the handbook is altered or updated, announcements are shared across our business units to maintain a consistent understanding of our Talent engagement policies.

This year, HKBN launched a variety of initiatives for the benefit of our Talents, including a reform of our medical insurance scheme. Details of the Total Rewards Concept, medical insurance scheme revamp, and KPI target pain/GAIN Scheme, can be found in the chapters headed "Customers" and "Talents" on pages 44 to 59 and pages 60 to 75 of this annual report respectively.

Customers

For the residential market, building customer loyalty is extremely challenging under this intensely competitive and disruptive environment. HKBN operates in a Customer-in way, from products to services delivered across all channels, physical and digital, to serve our customers with their best interest at heart. When it comes to service, speed and convenience are top priorities for most customers. Armed with complete and real-time information about customers via our Customer Relationship Management ("CRM") system, Talents are empowered to make decisions which address customer needs. To this end, customer requests are dealt promptly on first contact. Whether customers choose to contact us through social media, online platform, by phone or email, this ensures that a consistent level of quality service can be delivered.

True to our brand promise of excellence, our Residential Service Hotline Service has been granted Service Quality Management Certificate ("HKQAA"). Since 2013, our General Hotline has won Mystery Caller Assessment Gold Awards ("HKCCA") for 5 consecutive years; likewise since inception our VIP Hotline has won the Gold Awards for 3 straight years. Throughout the year, we received around 1,400 written compliments praising the outstanding work of our customer service agents and service technicians.

For the enterprise market, customers today are demanding greater mobility in their telecom services, more product options, customised solutions and better ways to connect with their business and operations round-the-clock. To meet the needs for a broad array of customers across different sectors and markets, ranging from local retailers, SMEs to multinational corporates as well as international carriers, our highly motivated and engaged Enterprise Solutions teams are striving to improve the overall quality of our services and enhance the agility of our service processes.

In the coming year, through the extended arm of ICG's (we acquired ICG in May 2018) Cloud expertise as well as the popularity of Global Phone data roaming services, we will focus more on enhancing online service initiatives for our Enterprise customers. To coincide with these developments, efforts will be undertaken to upgrade our frontline Talents with professional expertise in Cloud solutions. Details of our customer-focused initiatives are set out in the chapter headed "Customers" on pages 44 to 59.

Suppliers

HKBN is committed to conducting our supplier procurement activities with the highest standards of quality and integrity. Our Procurement Policy sets out a consistent approach with comprehensive rules and regulations which we require all Talents to comply with when undertaking any sourcing activities. Diversity of sourcing is essential to drive our belief in making Hong Kong a better place to live. Whenever possible, HKBN prefers any opportunity to diversify partnerships with a proclivity to choose social enterprise suppliers.

With the strong foundation informed by our corporate core value, sustainable procurement plays an important role in our corporate social investment strategy of which is expounded in our Group's Procurement Policy. We expect our suppliers either to comply with our Supplier Code of Conduct or has its own business code of conduct that meets our requirements and similar approach is expected for its suppliers and subcontractors.

The Group has introduced criticality assessment and add in measurement and consideration on supplier sustainability concerning Environment, Labour, and Health & Safety in our supplier selecting processes. More information about our Group's Procurement Policy and approaches is set out in the chapter headed "Suppliers" on pages 76 and 77 of this annual report.

Compliance with Applicable Laws and Regulations which have a Significant Impact on the Group

The Group and its activities are subject to various applicable legal and regulatory requirements. They include but are not limited to the Telecommunications Ordinance (Cap. 106), the Trade Descriptions Ordinance (Cap. 362), the Personal Data (Privacy) Ordinance (Cap. 486), the Competition Ordinance (Cap. 619), the Employment Ordinance (Cap. 57) and the Listing Rules. Through the implementation of various internal controls and approval procedures, and appropriate in-house training provided to different business units within the Group, the Company has complied in all material respects with all relevant laws and regulations that have significant impact on the operations of the Group for the year ended 31 August 2018, including the following laws and regulations. During the year ended 31 August 2018, the Group has organised training sessions on "Overview on Intellectual Property Law" for managerial and above level Talents from all departments, as well as for Talents of Marketing and Talent Engagement departments. Likewise, training on "What You Need To Know About Competition Ordinance" was undertaken by managerial and above level Talents from all departments.

Personal Data Privacy Ordinance ("PDPO")

The Group's collection, holding, processing or use of personal data in its usual and ordinary course of business is required to comply with relevant requirements of the PDPO. During the year ended 31 August 2018, there was an unauthorised access made to an inactive customer database possessed by the Group. Please refer to the chapter headed "Customers" on pages 44 to 59 in this annual report for more details about this incident. To prevent similar incidents from occurring in the future, protective measures as well as training sessions and meetings with relevant business units had been held to ensure that we are securely equipped and compliant with the law.

Telecommunications Ordinance ("TO")

As licensees under the TO, and in the interest of the public, the Group is obligated to provide certain interconnection services and share facilities owned by them. If licensees fail to cooperate with the Communications Authority ("CA"), fines may be imposed.

Trade Descriptions Ordinance ("TDO")

The CA has concurrent jurisdiction with the Customs and Excise Department in the enforcement of the TDO. To ensure compliance with the TDO, all sales and marketing materials are reviewed to ensure compliance and refresher training sessions are offered to sales and marketing business units from time to time. False trade descriptions of goods and services, misleading omissions, bait advertising, etc., are prohibited under the TDO. If any of the aforesaid offences are committed, it may result in criminal prosecution and a maximum penalty of HK$500,000 and five-year imprisonment could be imposed.

Competition Ordinance ("CO")

The CA has concurrent jurisdiction with the Competition Commission ("CC") in the enforcement of the CO, namely, in relation to telecommunications and broadcasting licensees. To ensure compliance with the CO, training sessions were conducted for all business units before the CO came into effect on December 2015, a further update session was conducted in September 2017 for managerial and above level Talents whilst a compliance guideline manual was prepared for Talents involved with sales, marketing, business tenders, pricing, contracts and strategy formation. Under the CO, agreements or concerted practices between undertakings that have the object or effect of preventing, restricting or distorting competition in Hong Kong is prohibited. Likewise, an undertaking that has a substantial degree of market power is also prohibited from abusing its power through engaging in conduct that has its object or effect of preventing, restricting or distorting competition in Hong Kong. Failure to comply with these competition rules could result in the Competition Tribunal imposing a fine of up to 10% of the gross Hong Kong turnover of the Group (up to three years) and Directors may be disqualified for up to five years.

Consolidated Financial Statements

The financial performance of the Group for the year ended 31 August 2018 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 115 to 184 of this annual report.

Recommended Dividend

The Directors now recommend the payment of a final dividend of 30 cents per ordinary share (2017: 23 cents per ordinary share) to the shareholders on the register of members on Friday, 4 January 2019, amounting to approximately $301,700,000 (2017: $231,303,000).

Subsidiaries and Joint Ventures

Details of the principal subsidiaries and joint ventures of the Group at 31 August 2018 are set out in notes 12 and 13 to the consolidated financial statements, respectively.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

Financial Summary

A summary of the results and of the assets, equity and liabilities of the Group for the last five financial years/period is set out on pages 185 and 186 of this annual report.

Retirement Schemes

Details of the retirement schemes of the Group are set out in note 8 to the consolidated financial statements.

Bank Loan

Particulars of bank loan of the Group as at 31 August 2018 are set out in note 19 to the consolidated financial statements.

Donations

During the year ended 31 August 2018, the Group made charitable and other donations of approximately $1,298,000 (2017: $7,500).

Distributable Reserves of the Company

As at 31 August 2018, the Company's reserves available for distribution to shareholders were $1,097,491,000 (2017: $1,099,383,000).

Under the Companies Law (2018 Revision) of the Cayman Islands and the articles of association of the Company (the "Articles"), no dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution including share premium.

Directors and Directors' Service Contracts

The Directors of the Company during the year ended 31 August 2018 and up to the date of this report were:

	Name of Director
Chairman and Independent Non-executive Director	Mr. Bradley Jay HORWITZ [2,4]
Executive Directors	Mr. Chu Kwong YEUNG [3,6] Mr. Ni Quiaque LAI
Non-executive Director	Ms. Deborah Keiko ORIDA [4]
Independent Non-executive Directors	Mr. Stanley CHOW [2,4,5] Mr. Yee Kwan Quinn LAW, SBS, JP [1,4,6]

Note:
1 Chairman of Audit Committee
2 Member of Audit Committee
3 Chairman of Nomination Committee
4 Member of Nomination Committee
5 Chairman of Remuneration Committee
6 Member of Remuneration Committee

A full list of names of the Directors of the Group's subsidiaries can be found in the Company's website at www.hkbnltd.net under "Our Company/Corporate Governance".

Currently, all Directors are subject to retirement by rotation at least every three years and re-election in accordance with the Listing Rules and the Articles. At least one-third of Directors shall retire from office every year at the Company's annual general meeting.

In accordance with article 16.18 of the Articles, Mr. Bradley Jay HORWITZ, an Independent Non-executive Director of the Company, and Ms. Deborah Keiko ORIDA, a Non-executive Director of the Company, shall retire from office at the forthcoming annual general meeting and shall be eligible for re-election. All remaining Directors shall continue in office.

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

No Directors proposed for re-election at the forthcoming annual general meeting have service contracts with the Company or any of its subsidiaries which are not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 August 2018.

Directors' and Chief Executives' Interests in Securities

As at 31 August 2018, the Directors and chief executives of the Company had the following interests and short positions in the shares, underlying shares (in respect of positions held pursuant to equity derivatives), and debentures of the Company and its associated corporations (within the meaning of Part XV of the《Securities and Futures Ordinance》(the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) were otherwise required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 of the Listing Rules :

Long Position

Ordinary shares of HK$0.0001 each in the Company

Name of Director		Number of shares held	Number of underlying shares held under equity derivatives (Note 1)	Total number of shares held	Percentage of the issued share capital of the Company
Mr. Bradley Jay HORWITZ	(Note 2)	250,000	–	250,000	0.02%
Mr. Chu Kwong YEUNG	(Note 3)	26,989,149	97,278	27,086,427	2.69%
Mr. Ni Quiaque LAI	(Note 4)	32,930,001	67,121	32,997,122	3.28%

Notes:

1. *These represent the number of restricted share units (the "RSU") which will be vested in such Directors under the Co-Ownership Plan II adopted by the Company on 21 February 2015.*
2. *Mr. Bradley Jay HORWITZ is personally interested in 250,000 ordinary shares.*
3. *Among 27,086,427 ordinary shares which Mr. Chu Kwong YEUNG are personally interested, in 97,278 RSUs that were granted to him pursuant to the Co-Ownership Plan II adopted by the Company on 21 February 2015, which were subject to certain vesting conditions, remained unvested.*
4. *Among 32,997,122 ordinary shares which Mr. Ni Quiaque LAI are personally interested, in 67,121 RSUs that were granted to him pursuant to the Co-Ownership Plan II adopted by the Company on 21 February 2015, which were subject to certain vesting conditions, remained unvested.*

Other than the interests disclosed above, none of the Directors nor the chief executives nor their associates had any interests or short positions in any shares, underlying shares (in respect of positions held pursuant to equity derivatives) or debentures of the Company or any of its associated corporations as at 31 August 2018.

Interests in Competing Business

During the year ended 31 August 2018, none of the Directors are considered to have an interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Share Incentive Scheme

Co-Ownership Plan II

To attract, retain and motivate skilled and experienced Talents, the Company adopted the Co-Ownership Plan II on 21 February 2015. Under the Co-Ownership Plan II, the Board may, in its absolute discretion, invite participants to purchase shares of the Company and agree to grant them a contingent right to receive shares (i.e. RSU) at the relevant matching ratio in respect of any shares purchased, subject to certain terms, conditions and undertakings. The total number of shares that may underlie the RSUs granted pursuant to the Co-Ownership Plan II shall be (i) 10% of the shares in issue on 12 March 2015 (the "Listing Date") 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 ordinary shares to the Co-Ownership Plan II trustee. Such shares represented approximately 0.56% of the total issued share capital of the Company on the Listing Date. The Co-Ownership Plan II trustee will hold such shares on trust until their release to participants upon vesting of the RSUs.

Details of movements of the Co-Ownership Plan II during the year ended 31 August 2018 are as follows:

Participants	Date of grant	Number of RSUs						To be vested on 24 January/20 June/20 July/20 November (As at 31 August 2018)		
		Granted	As at 1 September 2017	Granted during the year	Forfeited during the year	Vested during the year	As at 31 August 2018	2018	2019	2020
Mr. Chu Kwong YEUNG*	29 June 2015	238,608	119,304	–	–	119,304	–	–	–	–
Mr. Ni Quiaque LAI*	29 June 2015	158,132	79,066	–	–	79,066	–	–	–	–
Other Participants	29 June 2015	2,326,246	967,772	–	47,890	919,882	–	–	–	–
Other Participants	18 August 2015	273,612	129,936	–	2,859	127,077	–	–	–	–
Other Participants	20 November 2015	158,567	15,736	–	9,261	3,236	3,239	3,239	–	–
Mr. Chu Kwong YEUNG*	20 June 2016	194,556	145,917	–	–	48,639	97,278	–	97,278	–
Mr. Ni Quiaque LAI*	20 June 2016	134,241	100,681	–	–	33,560	67,121	–	67,121	–
Other Participants	20 June 2016	1,752,685	1,148,412	–	72,530	370,339	705,543	–	705,543	–
Other Participants	24 January 2017	400,472	386,871	–	26,977	96,704	263,190	–	87,712	175,478
Other Participants	20 July 2017	252,635	252,635	–	30,222	55,599	166,814	–	55,599	111,215
Total		**5,889,754**	**3,346,330**	**-**	**189,739**	**1,853,406**	**1,303,185**	**3,239**	**1,013,253**	**286,693**

** Director of the Company*

Arrangements to Purchase Shares or Debentures

Saved as disclosed in the “Share Incentive Scheme” above, at no time during the year ended 31 August 2018 was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Interests of Substantial Shareholders

As at 31 August 2018, to the best knowledge of the Directors and chief executives of the Company, the following persons (other than any Directors or chief executives of the Company) were substantial shareholders, had notified the Company of their relevant interests in shares and underlying shares (in respect of positions held pursuant to equity derivatives) representing 5% or more of the issued share capital of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO:

Long Position

Ordinary shares of HK$0.0001 each in the Company

Name of shareholder	Note	Number of ordinary shares beneficially held	Percentage of the issued voting shares of the Company
Canada Pension Plan Investment Board	(a)	182,405,000	18.14%
GIC Private Limited	(b)	87,284,797	8.68%
The Capital Group Companies, Inc.	(c)	92,704,500	9.22%
Matthews International Capital Management, LLC	(d)	60,350,000	6.00%
Bonderman David	(e)	236,627,451	23.53%
Coulter James George	(e)	236,627,451	23.53%
Kim Michael ByungJu	(f)	236,627,451	23.53%
Kong Teck Chien	(f)	236,627,451	23.53%
MBK GP III, Inc.	(f)	236,627,451	23.53%
MBK Partners Fund III, L.P.	(f)	236,627,451	23.53%
MBK Partners GP III, L.P.	(f)	236,627,451	23.53%
MBK Partners JC GP, Inc.	(f)	236,627,451	23.53%
MBK Partners JC GP, L.P.	(f)	236,627,451	23.53%
MBK Partners JC, L.P.	(f)	236,627,451	23.53%
TPG Asia Advisors VI, Inc.	(e)	236,627,451	23.53%
TPG Wireman, LP	(e)	236,627,451	23.53%
Twin Holding Ltd	(f)	236,627,451	23.53%

Notes:

(a) *Canada Pension Plan Investment Board is the beneficial owner of 182,405,000 ordinary shares of the Company.*

(b) *87,284,797 ordinary shares are held by GIC Private Limited in the capacity of investment manager.*

(c) *The Capital Group Companies, Inc. through its subsidiaries, namely Capital International, Inc., Capital International Limited, Capital International Sarl, and Capital Research and Management Company held 3,297,500 ordinary shares, 297,000 ordinary shares, 4,043,500 ordinary shares, and 85,066,500 ordinary shares in the Company, respectively, and is accordingly deemed to be interested in the respective ordinary shares held by the aforesaid companies.*

(d) *60,350,000 ordinary shares are controlled by Matthews International Capital Management, LLC in the capacity of investment manager.*

(e) *Each of these persons is deemed to be interested in 236,627,451 ordinary shares in the Company through: (i) TPG Wireman, LP's deemed interest in 152,966,345 ordinary shares in the Company to be allotted and issued by the Company to TPG Wireman, LP as consideration shares upon completion of the proposed acquisition by a wholly-owned subsidiary of the Company of the entire issued share capital of WTT Holding Corp. from TPG Wireman, LP and Twin Holding Ltd (the "Proposed WTT Acquisition") pursuant to the sale and purchase agreement dated 7 August 2018 between, amongst others, the Company, TPG Wireman, LP and Twin Holding Ltd (the "WTT SPA"); and (ii) TPG Wireman, LP's proposed subscription of the vendor loan notes to be issued by the Company to TPG Wireman, LP upon closing of the WTT SPA, upon the full exercise of which will be convertible into 83,661,106 new ordinary shares to be allotted and issued by the Company to TPG Wireman, LP at the initial conversion price of HK$11.60 per ordinary share (subject to the detailed terms and conditions of such vendor loan notes). Each of Mr. David Bonderman and Mr. James George Coulter, each being an indirect controller of TPG Wireman, LP under Part XV of the SFO, is also deemed to be interested in the same number of ordinary shares in the Company which TPG Wireman, LP is deemed to be interested in.*

(f) *Each of these persons is deemed to be interested in 236,627,451 ordinary shares in the Company through: (i) Twin Holding Ltd's deemed interest in 152,966,345 ordinary shares in the Company to be allotted and issued by the Company to Twin Holding Ltd as consideration shares upon completion of the Proposed WTT Acquisition pursuant to the terms and conditions of the WTT SPA; and (ii) Twin Holding Ltd's proposed subscription of the vendor loan notes to be issued by the Company to Twin Holding Ltd upon closing of the WTT SPA, upon the full exercise of which will be convertible into 83,661,106 new ordinary shares to be allotted and issued by the Company to Twin Holding Ltd at the initial conversion price of HK$11.60 per ordinary share (subject to the detailed terms and conditions of such vendor loan notes). Each of Mr. Michael ByungJu Kim and Mr. Teck Chien Kong, each being an indirect controller of Twin Holding Ltd under Part XV of the SFO, is also deemed to be interested in the same number of ordinary shares in the Company which Twin Holding Ltd is deemed to be interested in.*

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares (in respect of positions held pursuant to equity derivatives) of the Company as at 31 August 2018.

Connected Transactions and Directors' Interests in Contracts

None of the related parties transactions as disclosed in note 31 to the consolidated financial statements for the year ended 31 August 2018 constituted connected transaction or continuing connected transaction as defined under Chapter 14A of the Listing Rules.

During the year under review, there were no connected transactions (defined under Chapter 14A of the Listing Rules) of the Company. No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

Major Customers and Suppliers

For the year ended 31 August 2018, the aggregate amount of revenue attributable to the Group's five largest customers were approximately 7.1% of the Group's total revenue and the revenue attributable to the Group's largest customer were approximately 2.7% of the Group's total revenue.

For the year ended 31 August 2018, the aggregate amount of purchases and costs incurred attributable to the Group's five largest suppliers were approximately 15.2% of the Group's total purchases and costs incurred, and purchases and costs incurred from the largest supplier accounted for approximately 7.1% of the total purchases and costs incurred.

At no time during the year, did a Director, an associate of a Director or a shareholder of the Company, which to the knowledge of the Directors owns more than 5% of the Company's issued share capital, have an interest in the share capital of any of the five largest customers or suppliers of the Group.

Update on Directors' Information under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors of the Company since the publication of the Company's 2018 interim report are set out below:

Mr. Chu Kwong YEUNG, an Executive Director of the Company, is appointed as the Executive Vice-chairman with effect from 1 September 2018.

Mr. Ni Quiaque LAI, an Executive Director of the Company, is appointed as the Chief Executive Officer of the Group with effect from 1 September 2018.

Ms. Deborah Keiko ORIDA, a Non-executive Director of the Company, changes her position in Canada Pension Plan Investment Board from Managing Director, Head of Private Equity, Asia to Senior Managing Director & Global Head of Active Equities with effect from 1 June 2018.

Mr. Stanley CHOW, an Independent Non-executive Director of the Company, is appointed as a Non-executive Director of PuraPharm Corporation Limited (stock code: 1498), a company which is listed on the Main Board of the Stock Exchange, on 28 August 2018. Mr. Chow ceases to be the member of The Law Society of Hong Kong's Company Law Committee on 31 October 2018.

Mr. Yee Kwan Quinn LAW, an Independent Non-executive Director of the Company, ceases to be the council member cum Audit Committee Chairman at the Hong Kong University of Science and Technology on 31 July 2018.

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 Company's listed securities during the year ended 31 August 2018.

Directors' Emoluments and Five Highest Paid Individuals

The emoluments of the Directors of the Company are recommended by the Remuneration Committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. Details of the remuneration of the Directors and those of the five highest paid individuals of the Group for the year ended 31 August 2018 are set out in notes 5 and 6 to the consolidated financial statements, respectively.

Pre-emptive Right

There are no provisions for pre-emptive rights under the Company's Articles, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 96 to 108 of this annual report.

Sufficiency of Public Float

On the basis of information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 August 2018 and up to the date of this annual report.

Indemnity of Directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the Directors of the Company is currently in force and was in force throughout this year.

Subsequent Event

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

Professional Tax Advice Recommended

If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

Auditor

The financial statements have been audited by KPMG who shall retire and being eligible, offer itself for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

William YEUNG
Executive Director
Hong Kong, 1 November 2018

Customers

Mindful that success starts with customers, we work endlessly not only to inject disruptive features and appeal across our products, services, technologies and experiences, but we also make sure factors like reliability, transparency, quality and safety are consistent across all our products and services.

More than any other factor, innovation is the key to how we create value and desirability for customers.

Service Reliability

Reliability of our services is an important attribute that helps reinforce customer trust in our service.

Rain or shine, our dedicated engineering teams work hard to ensure Hong Kongers stay connected.

Excellent Network Performance

To ensure that our fibre network service is outstanding and reliable, our Network Operation Centre ("NOC") works around-the-clock to monitor and manage our performance. In FY18, overall network availability was at 99.9931%. For our Enterprise Solutions (GPON deployment), network availability reached 99.9985%.

Standard procedures and escalation guidelines are in place to ensure rigorous monitoring of network performance across different service platforms. Above all, our key objective is to mitigate any impact or potential impact to customers, as well as ensure timely communication with affected stakeholders.

Pre-emptive Improvements

Rather than wait for problems to emerge, we've embraced pre-emptive solutions to minimise network maintenance. For example, we initiated the replacement of uninterruptible power supply ("UPS") and batteries at major head-end and building sites to avoid possible future service outage. Throughout FY18, over 500 UPS sites have been retrofitted as a result. Further preventive maintenance plans include AC power plant upgrades to enhance resilience protection, electricity generators upgrade for improved performance during emergencies, and the diversification of power feeds to our data centres.

99.9931%

overall network availability

Expanded Network Coverage

To make our high-value services more widely available for households and companies, we continued expanding our fibre network coverage across different parts of Hong Kong. In FY18, we extended our coverage to more than 45,000 additional homes, 53% of which comprised rural areas, including villages not previously served by hi-speed fibre broadband services. To facilitate growth of our Enterprise Solutions business, 112 commercial buildings were added to our network coverage this year. As at the end of FY18, our fibre network reaches a total of 2.3 million homes and 2,400 commercial buildings in Hong Kong.

Reliable Partners, Reliable Service

In the interest of our subscribers, we work closely with business partners to ensure reliability of our mobile and OTT services. SmarTone and China Mobile Hong Kong, the two Mobile Network Operators ("MNO") who support our MVNO service, promise to provide the same level of service quality as they would for their own mobile customers. Our NOC maintains close communication with the corresponding network operation centres of the abovementioned MNOs to get timely mobile service performance updates. For OTT services, apart from direct NOC-to-NOC communication, we undertake regular technical reviews and receive quarterly reports from TVB, our OTT platform partner.

Escalation procedures with our MNO and OTT business partners exist which help shorten recovery time and minimise impact during service interruptions or outages. To safeguard service reliability and continuity, our business partners are stipulated to maintain customer protection throughout their contract period.

香港寬頻
HONG KONG
BROADBAND NETWORK

企業方案
Enterprise Solutions

Enterprise Solutions Performance Pledge

As always, we are committed to serving enterprise customers with the highest standards of service availability and stability. Whenever the agreed or guaranteed standards cannot be reached, a reimbursement (rebate of service fee) will be provided. Our performance pledges include:

Broadband 100Mbps

100Mbps broadband service upload/download speed (from the wall plate at customer's premises to HKIX) is guaranteed to be no less than 80Mbps, otherwise twice the amount of the relevant broadband service fee charged for the dates affected calculated on a pro-rata basis will be reimbursed.

Dedicated Internet Access ("DIA"), Premium Dedicated Internet Access ("PDIA"), MetroNet and Dense Wavelength Division Multiplexing ("DWDM") services

We offer a guarantee on service availability of 99.98%. Whenever HKBN fails to meet this level of availability, customers will be reimbursed with the relevant percentage (2%-20%) of the month's net monthly service fee.

Multi-Protocol Label Switching ("MPLS") service

We offer a guarantee on service availability of 99.95%. When HKBN fails to meet this standard, customers will be reimbursed with the relevant percentage (2%-20%) of the month's net monthly service fee.

International Ethernet Private Line ("IEPL") service

The following is the guaranteed availability for the customer's service port at local HKBN's Point of Presence (PoP) to overseas PoP:

HK – HK	99.95% or above
HK – China	99.9% or above
HK – Singapore	99.9% or above
HK – Macau	99.9% or above
HK – Philippines	99.6% or above
HK – US & Europe	99.5% or above

When HKBN fails to meet the service level, customers will be reimbursed with the relevant percentage (2%-20%) of the month's net monthly service fee.

99.98%

DIA, PDIA and DWDM guaranteed service availability rate

Future Proofing Success

Danny Li and his team of technologists are always on the lookout to sustain HKBN's current and future competitiveness.

As Hong Kong's first to deploy 100Mbps,

and one of the world's first to mass deploy 1,000Mbps high-speed fibre broadband services, we know the importance of staying ahead of the tech curve. To "Make our Hong Kong a Better Place to Live", we always prioritise efforts to deliver better, faster, more reliable and stable telecommunication services which meet and exceed customer expectations.

Danny Li, our Co-Owner and Director – Network Architecture & Technology, leads his team in its responsibility to – put simply – future proof our success, via, the many conscientious tech choices we make.

"Our job is to find the best new technologies which bring network improvements in ways that range from surpassing performance to enhanced cost-savings," says Danny.

"Technology is constantly changing, so it is imperative we carefully assess trends on the horizon and adopt solutions – often in close consultation with our technology vendors – which weigh-in factors like customer expectation, cost-savings, performance scalability, energy savings, and more."

These considerations are bringing profound impact across an array of important recent upgrades like:

- Improved Content Delivery Network so OTT customers can enjoy better and smoother streaming experiences
- A new Metronet architecture for 50% cost-savings
- Increased business broadband coverage for 500Mbps/1,000Mbps services

"Recently, we worked closely with Huawei and were heavily involved in the development of its NetEngine 9000 ("NE9000") next generation core router, which includes a number of HKBN wish-list features," Danny comments, "We became the first in the world to use NE9000, a solution which addresses our needs 5-10 years down the line with 6-times capacity increase and high energy efficiency at only 0.4W/G, representing an energy consumption reduction of two-thirds."

Reliability on the **Frontlines**

Our Certified Professional Engineers ("CPE") team are responsible for installation and maintenance of our broadband service. In FY18, the team received a score of 5.61 out of 6 (equivalent to 93.5%) in a customer satisfaction survey.

To provide better service and reliability, our CPE team implemented the following measures for active HKBN broadband users, these include:

- Reinstallation of broadband cabling whenever a household makes repeated maintenance requests within a 6-month period
- Invite households at high maintenance estates to undergo preventative network health checks

Via the above initiatives (implementation started at the beginning of FY17), our CPEs helped reduced cases of repeated maintenance requests by 25% in FY18 (FY18 repeated maintenance ratio is 5.85%).

93.5%

customer satisfaction score for our Certified Professional Engineers

Our commitment:
100 Mbps residential fibre broadband charged at

<1%

of Hong Kong's median household income

Service Affordability

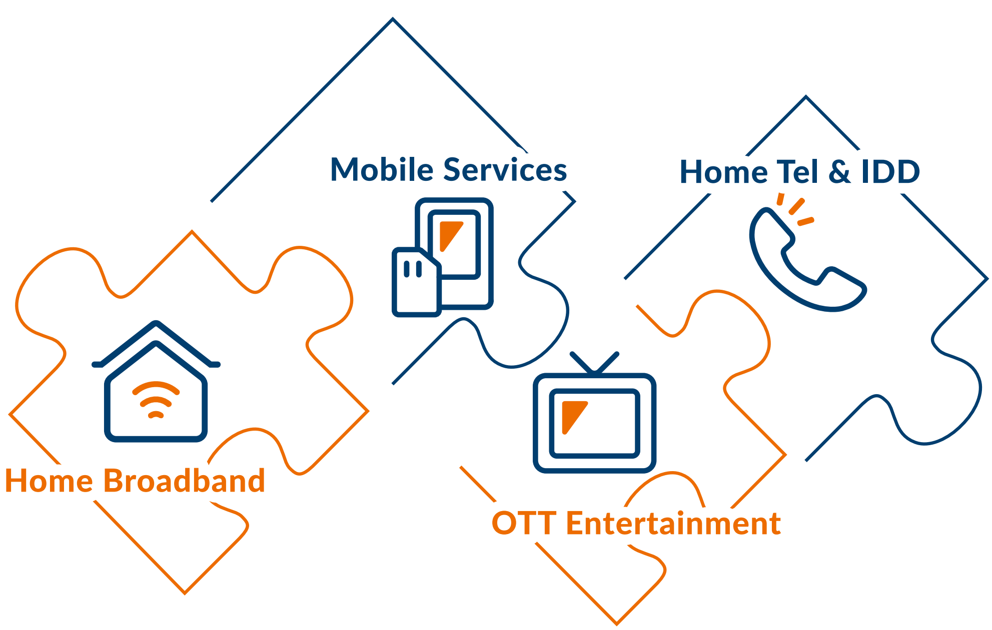
True to our purpose to "Make our Hong Kong a Better Place to Live", we believe broader accessibility to world-class telecommunications is essential in a strong, prosperous society. For that reason, we continue to set the price ceiling for our 100Mbps residential fibre broadband service at 1% of Hong Kong's median household income.

As a company committed to bringing customers the best value for their money, we constantly track, analyse and benchmark market trends. But instead of following legacy market practices, our disruptive DNA has led us to tailor services for the benefit of consumers.

Since September 2016, HKBN was the first service provider in Hong Kong to offer integrated 4-in-1 quad-play service plans on one integrated bill. Combining home broadband, mobile, OTT entertainment and home telephone service, we introduced an unprecedented bundled value proposition for customers to enjoy at significantly discounted prices. By contrast our legacy competitors, primarily offer their services on a standalone basis.

Working closely with our business partners ensures we can provide exceptional price-value to customers. For example, since our initial entry into the MVNO market in late 2016, we've aggressively pushed to introduce various paradigm shifting mobile plans (particularly in terms of value for money) that have helped trigger a perceptible reduction in tariffs across Hong Kong's mobile market. Likewise, our recently launched Global Phone service changes the competitive landscape by offering global data service at a fraction of the costs for legacy mobile roaming service.

As a socially engaged company, we fully support the contributions made by NGOs. To play our part, we offer special pricing for our services to members of the Hong Kong Council of Social Service, one of the largest social welfare organisations affiliated with over 460 social welfare agency members.



We took
strong, decisive measures
to implement industry-leading data collection and retention practices as well as introduced a series of network security enhancement initiatives.

Data Privacy

Our customers trust us with their personal data, and we take data privacy protection as a top priority. We have a stringent privacy policy governing how we collect, use and manage customer information. Our Internal Audit and Risk Department also commissions certified professionals to conduct periodic reviews of our security systems. Customers can pose their enquiries or complaints about data privacy via telephone hotline or by email, fax or letter. We target to investigate and respond to such enquiries within seven days.

During the reporting period, there was no substantiated legal case for non-compliance of the related laws and regulations. Nevertheless, in April 2018, we discovered that an unknown party had made unauthorised access to an inactive customer database which contained some customer and service applicant records. We took immediate containment and remedial actions, as well as conducted a comprehensive checkup and investigations made by both our internal teams and an external network consultant. We promptly reported the case to the police, the Privacy Commissioner for Personal Data ("PCPD") and the Office of the Communications Authority ("OFCA"), and fully cooperated in their subsequent enquiries/investigations. As far as we are aware, no prosecution was made as at the end of the reporting period.

Following this incident, we took strong, decisive measures to implement industry-leading data collection and retention practices as well as introduced a series of network security enhancement initiatives. As at the end of the reporting period, we deleted all personal data relating to customers whose accounts have been closed and cleared for six months. In addition, we no longer store full credit card numbers. We have completely removed from our database 6 digits (out of the full 16 digits) for credit card numbers belonging to our existing customers. Furthermore, we altered the way each customer's Hong Kong Identification Card ("HKID") number is stored. To this end, HKID card numbers are now only partially visible via our front-line system.

Between May and July 2018, we engaged an external consultant to conduct a thorough assessment of our network and systems. As a result, our network security has been enhanced with the following measures and plans:

- Establishment of an advanced security operations centre with increased manpower dedicated for network security, malware and hacking detection
- Network re-segmentation and enhancement
- Multi-factor authentication of our remote access system
- Continuous review and enhancement of our infrastructure, hardware, software and security strategy
- Regular security hack drill and red team hacking

Throughout FY18, our Talents (including IT and Network Technology teams) underwent further augmentative training on cyber security and customer data privacy, which totalled 1,796 hours and 1,086 hours respectively.

Cyber security training

1,796 hours

Customer data privacy training

1,086 hours

Fair and Transparent Sales & Marketing Approach

Our long term success with customers is built on a relationship of trust and integrity. For this crucial reason, our objective is to ensure that consumers can make well informed decisions about our products and services.

Standard policies and procedures are in place to ensure that all our marketing materials are compliant with the HKSAR Government's Trade Description Ordinance, intellectual property laws and other business pertinent ordinances. All marketing materials are properly vetted and approved by our legal and/or senior management teams. In FY18, a seminar on intellectual property law and practices was conducted for all Marketing-related Talents.

During the reporting period, there were no substantiated court cases for non-compliance against relevant advertising regulations.

To further enhance customer access and understanding of our pricing, charges and more, continuous improvements were made to our online platforms in FY18. These include:

- Personal/residential customers can now easily check for product/service information, terms and conditions, as well as make easy price comparisons using our website prior to subscribing
- Detailed information is available online for fixed-line and mobile services, as well as for our value-added services like MusicOne and myTV SUPER Supreme Pack
- Regardless of whether service registration is completed online or traditional offline channels, our pricing is consistent and transparent
- For the enterprise market, we introduced an online platform for general service renewal (information and terms of our services are highly transparent to help enterprise customers decide with ease)

Through partnering with Salesforce, we will deploy its Marketing Cloud platform to transition to a highly scalable smart communications approach. Our goal is to tailor the engagement experience, making it easier for us to impress consumers with highly personalised product/service information.

On a daily basis, Simon Ho, our Senior Shop Executive, is committed to serving customers at our retail shop.

Selling in a Responsible Way

At HKBN, we put heavy emphasis on training and service quality for all Talents involved with sales of our products and services.

All our sales-related Talents are obliged to receive comprehensive training covering product/service knowledge, sales techniques, company policy and ethics. Crucially, Talents must pass an assessment before being permitted to interact with our customers.

For existing sales Talents, on-the-job training and refresher trainings are regularly provided to ensure they are always adequately prepared. To ensure that accurate information is relayed to customers, our telesales Talents operate with the support of pre-approved scripts and detailed procedural guidelines.

As a further safeguard, performance of our frontline sales teams are carefully monitored by team leaders as well as the Quality Management team. Internal policy and procedures ensure disciplinary actions are enforced whenever a Talent gives deliberately misleading information or behaves inappropriately.

Innovation Built from Within

To augment our speed and flexibility for change, we've embraced the Agile methodology, a development approach which enables projects to evolve collaboratively amongst cross-functional teams — spurring faster delivery and continual improvements. As a result, project rollout lead times have been cut by an average of 20%–30%.

Taking advantage of technology and software advancements, we're deploying tools like artificial intelligence ("AI"), cloud and data analytics for wide-use applications that boost productivity, operational efficiency and improve overall customer experiences.

Rather uniquely, our pain/GAIN initiative adopts an entrepreneurial risk/reward approach that encourages our Talents to put innovative ideas into practice. This pain/GAIN scheme gives Talents who feel extra confident, whether it is about exceeding a lofty KPI target or the viability of an all-new idea, the opportunity to pledge their own money and earn rewards, at a pre-determined ratio, should they succeed. Like our approach to Co-Ownership, this scheme delivers a powerful alignment between Talents and shareholders.

Award Winning Excellence

In 2018, our commitment to innovation and excellence earned us two important accolades: Best Broadband Carrier and Best Mobile Virtual Network Operator awards from the Telecom Asia Awards.

Widely acknowledged as the Asia Pacific region's longest-running and most prestigious industry awards, Telecom Asia Awards serve to recognise the very best examples of outstanding excellence and achievement in tele-communications. This year's competition comprised 54 shortlisted telecom companies from across 14 Asia-Pacific markets (nominated by readers, editors and a judging panel). Winners are chosen based on a criterion of innovation, financial performance, technology, market leadership and corporate governance.

Source: Telecom Asia

Dressed in HKBN's colourful uniform, our Co-Owner and CEO NiQ Lai (left) proudly accepted two coveted Telecom Asia Awards 2018.

Award Winning Home Gateway

Rex Hui (centre) and his Product Development & Management teammates, (from left to right) Shirley Lai, Karen Ho, Alan Ko and Alex Chow, are transforming HKBN through smart innovative R&D.

Behind many of our latest product and service innovations for our residential customers

is the relentless efforts of our Associate Director – Product Development & Management, Rex Hui and his team.

"As always, our goal is to let our customers enjoy the benefits of the latest technology at very reasonable prices," says Rex, "A lot can be accomplished when our eyes and ears are open to what consumers want – and how the current marketplace has not addressed them."

With customer-in thinking, we collaborated with our technology partner VTech to develop and apply the Home Gateway, our all-in-one smart-home solution, in thousands of homes of our residential customers.

In today's interconnected world, households grapple with a growing number of Internet-enabled devices, i.e. Wi-Fi routers, tablets, smartphones, streaming set-top boxes, IP telephone and numerous Internet of Things ("IoT") applications. Our award-winning Home Gateway's ingenuity combines Internet connectivity (LAN and Wi-Fi), voice communication and smart-home management system into one single Gateway. It is one of the first products of its kind across the Asian market, reflecting our pioneering efforts in realising technology for daily living. Home Gateway won Gold Prize at Electronic Industries Award 2016 and 2017 Hong Kong Awards for Industries: Equipment and Machinery Design Award.

Powered by 1,000Mbps-enabled fibre broadband and 802.11ac Wi-Fi functionality, Home Gateway bridges the technical divide by giving customers 24/7 remote Internet connectivity troubleshooting support. Home Gateway also supports HD Voice calls, OTT set-top boxes and different smart devices, as well as features remote control home monitoring and various IoT smart-home applications. Along with Home Gateway, we also offer a thoughtful "Wi-Fi Concierge" service that includes fully optimised Wi-Fi set-up, 24/7 technical support hotline, remote diagnosis and wireless network trouble-shooting services.

Innovative Global Phone

Ben Yeung, Co-Owner and Head of Business Development & Partnership, leads our disruptive Global Phone Service to challenge Hong Kong's roaming market.

Continuous disruption of the status quo – especially when legacy practices leave consumers feeling letdown – has always been of great importance to HKBN.

Our latest move, Global Phone service, upends the paradigm of costly mobile roaming data service. Launched in partnership with uCloudlink and TVB in April 2018, Global Phone provides hassle-free global data connections across more than 60 major countries and regions, at a fraction of legacy prices.

While roaming data service provides the satisfaction of an immediately accessible connectivity experience during travels abroad, the associated costs are prohibitive. Not wanting to pay the high prices, consumers often opt for alternatives like data SIMs or portable Wi-Fi dongle devices. Among the drawbacks: every region requires a different SIM, some products exhibit poor signals, service is limited to a specified number of days, and more.

Perfectly fusing the best of two worlds, Global Phone features a patented CloudSIM technology that intelligently connects users to the region's mobile data network – no SIM card needed. Global Phone is priced to give consumers incredible value without compromising their experience. To allow travellers to stay in tune with Hong Kong's current affairs, latest lifestyle and entertainment content, Global Phone also comes pre-installed with TVB's four hottest apps, namely myTV SUPER, TVB Anywhere, big big channel and TVB News.

Besides offering Global Phone to the personal market, we see tremendous cost-saving potential for companies and their business travelers. To this end, we rolled out a two-month free trial of Global Phone to designated HKBN Enterprise Solutions customers.

Amplifying our Cloud Presence

In June 2018, our recent acquisition of ICG was introduced via a powerful Cloud-union event that attracted more than 700 business leaders from all sectors and industries.

Digital globalisation technologies such as machine learning, Cloud computing, big data analytics, Internet of Things, FinTech solutions, Virtual Reality, and more, have now transformed the global economy landscape. This transformation is creating business models that are supplemented by huge flows of data. As a result, data has emerged as the new currency of the digital economy and – increasingly – the impetus for innovation. According to market forecasts, global workloads for data centres will more than double, whilst global data centre traffic will increase at a compound annual growth rate of 27% by 2020.

Recognising the importance of Cloud and digitisation, we acquired ICG, a leading Managed Service Provider (MSP) of Cloud powered solutions, in May 2018. This move further broadens our versatility and competitiveness to better serve enterprise customers with complete end-to-end services that range from network infrastructure and system integration to the future of Cloud.

Strategically speaking, our acquisition coincides with developments that are turning Hong Kong into an important data hub centre – Amazon Web Services ("AWS") and Google Cloud Platform will soon join Microsoft Azure's presence in Hong Kong. This means businesses across Hong Kong, whether big or small, will be able to leverage the latest tech infrastructures to expand and succeed throughout their digital journey.

Being a leading multi-cloud system integrator, ICG has the following core strengths:

- The only Hong Kong headquartered MSP recognised in the latest Gartner's Asia/Pacific Context: 'Magic Quadrant for Public Cloud'
- The only Hong Kong based MSP named as one of the top 100 Public Cloud MSPs by ChannelE2E
- A key go-to-market partner of AWS and Certified AWS Advanced Consulting Partner
- Strong vendor endorsement from Microsoft Azure and VMware
- Cloud Adoption Consultation, Cloud Security Solutions and Implementation
- Multi, Hybrid & Private Cloud Architecture Design and Deployment
- Next-gen Cloud Application Design and Optimisation
- Cloud Application & Infrastructure Managed Services and Cost Optimisation

94.83%

of hotline calls answered during operating hours

How HKBN Improves

Listening to customers helps us understand what they desire. The following highlights the many ways we gather practical feedback for improvement:

- Monitor and analyse market information, benchmarking global best practices
- Use our multitude of online and offline channels to collect and analyse customer behavior
- Use surveys to regularly measure and monitor customer satisfaction
- Whenever new products/services are launched, customer satisfaction surveys are conducted with findings channeled to all related teams for service enhancement
- Enterprise Solutions customers are regularly invited to participate in our e-surveys and comprehensive telephone surveys (conducted by our Quality Management team)
- In FY18, over 600 Enterprise Solutions customers provided feedback and an overall performance rating of HKBN Enterprise Solutions' products and services (average score given by customers was 7.3 out of 10 and 7.5 out of 10 respectively)

Talents like Cassie Chow, our Assistant Customer Relations Supervisor, exemplify the professionalism and dedication we provide to customers who call our customer service hotline.

Customer Accessibility to Information and Assistance

Customers can easily reach us to obtain information or service assistance via a multitude of online and offline channels.

Residential Customer Service:

Through our customer service hotline, online platform, email and other channels, customers can get help quickly and easily. In terms of FY18 performance, our enquiry hotline answered 94.83% of all calls made by current customers within its normal operating hours (9am to 1am), an improvement from a 91.7% performance in FY17. For customers who have left us a voice mail, we will call them back within one day. In February 2018, we officially rolled out our online chat service to provide consumers with a convenient alternative for service enquiries.

For emails, our target is to respond to 95% of all customer enquiries within a 4-hour window (during normal operating hours of 9am–9pm). In FY18 we exceeded our goals with a 99.29% performance, an improvement from the 98.7% recorded for FY17.

Gauging customer approval is extremely important to us. Upon completing each enquiry made to our customer service hotline, customers are asked to rate their satisfaction on a scale of 1 to 6. With a target score of 5.5 out of 6, we outperformed in FY18 with an average score of 5.64 (equivalent to 94%).

For service complaints, we follow a standard policy governing how we handle customer dissatisfaction. Our Customer Service Department will carry out immediate investigation, aiming to provide a proper resolution within seven days.

Enterprise Solutions Customer Service:

To better address the needs of Enterprise Solutions customers, we offer various channels and convenient options where information and help can be accessed. These include:

- Dedicated account managers & account servicing relationship executives who oversee service and support
- Our newly enhanced Enterprise Solutions online service platform "MyAccount" provides round-the-clock instant customer service
- Enterprise Solutions customer service hotline, email, fax and online enquiry service

Customer Health and Product Safety

HKBN is committed to providing products and services which comply fully with the legal and regulatory requirements for consumer safety. To this end, HKBN will only do business with ethical and environmentally responsible suppliers. This means, at a minimum, suppliers who do business with us must comply with Hong Kong's laws and regulations.

Early involvement with our suppliers throughout the product design stage helps ensure our requirements for quality, compliance with international safety regulations and standards, as well as sustainability metrics, are met. In addition, new suppliers are required to provide certificates or reports from a third-party testing laboratory verifying that their products have passed relevant safety tests.

For our OTT content, we understand that a wide range of programmes (more than 40 channels and video-on-demand content) is provided by our OTT partner TVB. Viewers can select and watch these programmes via set-top box, computer or mobile device. Parental controls are also available for all age-restricted content.

Product Safety Protocol

If we receive any report of alleged safety issue with our Internet service, the case will be immediately escalated to our Network Operation Centre, who will investigate and, if needed, arrange for our Certified Professional Engineers to perform on-site inspection/maintenance within 24 hours. Throughout FY18, no substantiated non-compliance court cases relating to product health and safety occurred, nor were any such issues reported by customers.

Certified Broadband Engineers

All HKBN broadband engineers are required to complete the following courses before we recognise them as permanent Talents:

(i) Construction Industry Safety Training Certificate

Granted by HKSAR Occupational Safety & Health Council, this certification provides the relevant health and safety training for construction industry professionals.

(ii) CPE Certification Programme

This is our award-winning in-house training & certification programme, which offers a comprehensive training & assessment platform to certify the competence of all HKBN broadband engineers in three endorsement levels, namely, Gold, Silver and Bronze. This certification programme won the Gold Award of the Award for Excellence in Training and Development 2014 (Skill Training Category) by Hong Kong Management Association.

At present, HKBN has 300 broadband engineers (including both in-house and outsourced broadband engineers). Since implementing our CPE certification programme in 2014, we achieved sustained improvement in both work efficiency and customer satisfaction. Overall, our broadband installation success rates have increased from 85% in FY14 to 92% in FY18, while our customer satisfaction held at 93.5% in FY18.

Awards and Recognitions


Awards/Recognitions	Computerworld Hong Kong Awards 2018 — Wireless & Mobile Broadband Infrastructure Solution	Sing Tao Service Awards 2017 — Corporate Telecom Services	The Hong Kong Retail Innovation Awards 2017 — Gold Award in Best Retail Innovation (Application)
Conferred by	Computerworld Hong Kong	Sing Tao Daily	The Hong Kong Retail Technology Industry Association



Awards/Recognitions	Marketing Magazine's Marketing Excellence Awards 2017 — Excellence in Social Media (Gold) Excellence in Content Marketing (Bronze)	HKCCA Awards 2017 — Mystery Caller Assessment Award — Residential Service Hotline (Gold) Residential VIP Hotline (Gold)	Service Quality Management Certificate — Provision of customer service hotline services
Conferred by	Marketing Magazine	HK Call Centre Association	Hong Kong Quality Assurance Agency

Talents

A career at HKBN entails Total Rewards for Talents that aren't strictly monetary in nature.

Whilst financial remuneration is important, HKBN Talents benefit from a broad range of inducements that are part and parcel to our company.

Our Talents know through embracing our Core Purpose to "Make our Hong Kong a Better Place to Live", we're striving to pioneer benefits for Hong Kong society. We also uphold Talents as priority number one — substantiated by how we treat our Talents with respect, offer exceptional flexibility and employment benefits, and provide them with copious opportunities to grow professionally. By championing objectivity in our pay structure, Talents know all the contributions they make will be fairly rewarded. In an analogous way, our Co-Ownership culture gives Talents a one-of-a-kind opportunity to prosper as part owners of the company they serve.

All combined, these compelling elements ensure that HKBN Talents come to work thoroughly engaged with a sense of pride and passion to perform (the quintessential traits which drive our ability to innovate and stay competitive). From our Company's perspective, this holistic total rewards dynamic is core to our unique strategy of attracting, cultivating, incentivising and retaining the best Talents for success.

What our Core Purpose means to HKBNers

From the outset of launching **HKBN Mobile Services,** we've offered consumers much more affordable plans without sacrificing the quality of their experience. As a marketer, I'm thrilled to see that efforts like this have fundamentally challenged the way things are — we've driven our competitors to lower their prices and ease the burden of mobile expenses.

Shirley Cheung
Assistant Manager – Marketing

It brings me great pride to represent HKBN on the frontline where my interactions are helping households around Hong Kong enjoy exceptional connectivity experiences. Encouraged by our Core Purpose, I've also contributed to Hong Kong's greater good by joining events like HKBN Volunteer Day, where my technical expertise has aided disadvantaged social groups.

Cheung Ho Kit
Senior Service Technician

Even the smallest details can contribute to our Core Purpose. My job to take care of customers involves more than just offering service support; I do my best to listen, understand and answer questions with empathy. Being helpful to solve problems of customers gives me a great sense of pride and fulfilment.

Kimberly Kwok
Customer Relations Executive

To 'Make our Hong Kong a Better Place to Live', every day is a search for opportunities to improve the lives of Hong Kongers. Our recently launched Global Phone service upends traditional roaming services by offering travellers a convenient alternative at a fraction of the cost. I'm proud to know my work on this project is making a real difference!

Clio Ip
Co-Owner & Head of Specialized Products, Enterprise Solutions

LIFE-work PRIORITY

Mindful that Talents play a decisive role in our overall success, we strive to ensure they can work and enjoy happy, fulfilled lives. While many are still grappling with work-life balance, we uphold LIFE-work Priority. As a principle, we maintain that personal well-being and family should always come first — when Talents can spend quality time with friends and family, we believe they will show up for work more motivated to perform.

For these practical reasons, we continue to provide HKBN Talents with a broad array of highly progressive leave benefits, far beyond the obligations stipulated by law. On the whole, our entitlement policies provide the **equivalent of about 37 additional days off for each Talent**. Examples of our excellent leave benefits include those for our expecting mothers who are afforded 16 weeks of full-pay leave (Hong Kong law requires only 10 weeks at 4/5th pay). Similarly, our Paternity Leave gives new dads 14 days of full-pay leave (Hong Kong law requires employers provide 3 days of paid leave). Rather than the typical 9am to 6pm schedule, our normal workday begins at 9am and ends at 5pm, and allows flexible work hours to accommodate individual needs.

The following table highlights our comprehensive benefits and entitlements which exceed our legal obligation:

Shortened daily work day*
Talents enjoy a shorter work day of 7 hours instead of 8, for a total of **35 hours** per week

Monthly Half-day Off Friday*
Talents enjoy Half-day Off Friday **once per month**

Festive Half-day Off
Throughout the year, Talents enjoy half-day off during **4–5** important festive dates

Family Care Leave
1 day of paid leave so that Talents can spend quality with family

Examination Leave*
Up to 5 days of paid leave

Marriage Leave*
5 days of paid leave

Dating Leave#
1 day of paid leave taken for shift-duty Talents

Birthday Leave#
1 day of paid leave

Mobile office arrangement*
Flexibility to work outside the office

Upgraded Maternity & Paternity Leave*
16 weeks of full-pay Maternity Leave
14 days of full-pay Paternity Leave

Grandparenthood Leave*
3 days of paid leave for Talents blessed with the arrival of a new grandchild

Anniversary Leave
1 day of paid leave in the month of a Talent's joining to celebrate his/her contributions made during the year

2-for-1 Bonus Leave
Talents can choose to exchange 2 days of additional leave for 1 day of pay, for up to **10 days** of leave annually

Sabbatical Leave
Talents can apply for **up to 1 year** of no-pay leave as an opportunity to pursue a personal goal or dream

Volunteer Leave*
2 days of paid leave for Talents who volunteer for corporate social investment

* Applicable to Hong Kong operations only
\# Applicable to Shenzhen and Guangzhou operations only

Best practice training is regularly provided to ensure safety remains a key priority for HKBN Talents.

As always, we continue to strengthen the benefits provided for Talents. In FY18, the following enhancements were introduced:

Enhanced Work Injury Compensation

Since November 2017, we proudly introduced a market leading initiative that better addressed the health and safety concerns of our Talents. HKBN Talents who suffer injury whilst performing work-related duties are now entitled to their full monthly compensation for the first three months of being absent. In Hong Kong, the legal requirement for this is 4/5th monthly pay. This upgraded benefit provides our injured Talents with comprehensive protection and peace of mind on their road to recovery.

Reformed Medical Insurance with Equal Protection for All Talents

Believing that medical coverage is not an executive perk but a basic safety net entitlement for all HKBNers, we adopted a pioneering and egalitarian approach to implement company-wide equal medical protection in Hong Kong. In August 2018, we announced plans to roll out a highly re-balanced medical insurance scheme, which will allow our Hong Kong based Talents to enjoy uniform medical protection regardless of their title or rank. This revamp re-distributes the higher tier medical welfare expenses previously limited to management personnel to non-management Talents. Under the new scheme, over 1,500 junior level and frontline Talents, which account for over 90% of our workforce in Hong Kong, will stand to benefit from enhanced medical insurance protection, whilst the top 10% of our management level Talents will have the option to personally upgrade coverage at discounted group rates.

90%

of our Hong Kong workforce benefit from enhanced medical insurance protection

LIFE-work Priority: Flexibility

Staying true to LIFE-work Priority means we respect our Talents by granting work flexibility whenever the need comes. Besides allowing Talents to work from home or at our mobile office locations (based on individual requirements), throughout FY18 we've continued to be flexibly accommodating in response to events and unexpected situations that have materialised from time to time.

Situations like a sudden coldsnap or the day-after following a powerful typhoon can sometimes leave Hong Kong in a state of peril. We understand that during such instances, the best option may be for individuals to stay at home, where they can tend their loved ones.

The following examples show how we've caringly responded when necessary:

Influenza Outbreak in February 2018

In response to a widespread outbreak of seasonal influenza in February 2018, which caused the Hong Kong Education Bureau to briefly cancel kindergarten and primary school classes, we encouraged HKBNers to consider working from home or via mobile office. This impromptu arrangement ensured that Talents could, if necessary, stay focused on their family.

World Cup 2018

All work and no play, just isn't the HKBN way. During the World Cup, we revealed how our Talents enjoy LIFE to the fullest. Mindful that kick-off for the majority of World Cup matches (hosted in Russia) began well past midnight local Hong Kong time, we offered our Talents the flexibility to start their workday as late as 1pm — so they don't come to work overly fatigued. And to avoid loss of efficiency, such workdays are aptly adjusted to end later than usual. Work smart, play hard!

The day after Super Typhoon Mangkhut's landfall, Hong Kong's public transport plunged into chaos as morning commuters endured extended delays. We asked our Talents to embrace flexbility and work from home instead.

Super Typhoon Mangkhut in September 2018

On 16 September, Hong Kong was ravaged by Super Typhoon Mangkhut, the most intense tropical monsoon in Hong Kong history. This left widespread destruction which included heavy flooding, collapsed trees, landslides and electricity outage.

Cognizant of the fact that millions of commuters would face the ensuing chaos of public transport suspension and long delays the following day, we asked our Talents to exercise flexibility and work from home if necessary. Our aim was to maintain operation of core services so that our customers could stay connected, while minimising our call on Talents for other less critical services in times of extraordinary circumstances.

Our OPEN CULTURE for Talents

At HKBN, our Talents thrive under a corporate culture which boldly acknowledges their views and contributions. A vehement embrace of open communication and total engagement means Talents are always well-informed about key strategy directions impacting our business. This astonishing level of transparency, mutual trust and respect is possible thanks to our Co-Ownership DNA and Talent-first culture.

As such, HKBN Talents are presented with numerous opportunities to stand up and be counted as proactive leaders. Rather than be passive onlookers in our evolution and growth, our Talents are empowered — as well as expected — to think, perform and collaborate like a united team of aspiring entrepreneurs.

As we wage war against costly data roaming with a large-scale marketing campaign featuring superhero Price Guardian, we held two town hall meetings in Hong Kong and Guangzhou in May 2018 to share with all Talents our strategy and business outlook.

We celebrated the 1-year anniversary of our HKBN Mobile Services with pizzas.

To enhance unity amongst our Guangzhou teams, Talent communication and cooperation were tested through various challenge-filled exercises.

A showcase of our strategic vigilance, HKBN's full management team visited our Guangzhou operations to analyse ways we can improve.

At every opportunity, HKBN Talents are empowered to speak in public and share the insights and experiences defining our success.

Treating HKBN Talents with respect is a hallmark of our success; frontline Talents cheered our initiative to provide drinks and gear to cool down throughout the hot summer months.

In August 2018, our Talents were treated to a private screening of Man on the Dragon (and were joined by its director, Sunny Chan), a movie whose plot, based around four broadband employees, was vaguely reminiscent about our HKBNers' struggles, sacrifices and will power.

To expand creative thinking, our Guangzhou Talents took part in a workshop focused on handicrafts.

Management Meetings are held monthly to share the latest updates of our business, as well as allow individual Talents to showcase their work and new ideas.

Participants of our “Be a Pioneer” development programme have the hunger to evolve into members of our management team.

Through our open seating arrangement, team leaders and department heads from Residential and Enterprise Sales & Marketing, IT, Network Technology sit side by side with our CXOs.

These silo-free hubs ensure that a cross pollination of ideas and expertise help fuel our strategic planning process.

Fairly Rewarding our Talents

By using a pay-for-performance approach, our Talents are compensated in a fair and objective manner. By rewarding high performers with more bonus and higher salary increments, we recognise and encourage HKBN Talents to deliver better, high quality work. Conversely, as a rule, we also terminate the bottom 5% non-performers of our total salary base every year, if they fail to show improvement after a performance enhancement programme.

Individual performance is assessed based on two main factors: WHAT has been achieved (Key Performance Indicators ("KPIs")) and HOW it was achieved (Core Value or Leadership Attributes). "Core Value" and "Leadership Attributes" define the expected knowledge, skills and behaviours which serve to catalyse outstanding performance, and are used as the benchmarks to measure how each Talent has effectively performed in his/her position.

Our performance reviews comprise self-assessment, supervisory evaluation, review meetings and company-wide performance calibration at the department or senior management level. The rated results serve as a reference and criterion from which annual salary reviews, discretionary bonus allocations and promotion nominations are based upon.

Immersed in the local culture, our top performing Talents were treated to a Tokyo reward trip in late August 2018.

As always, we reward high performers with better year-end bonuses, salary increments and potential job promotion opportunities. At the same time, annual salary increment and/or bonus will NOT be given to the 5% of our bottommost performers, while a lower-than-average salary increment and bonus will be granted to those rated as under-performers. To effectively boost excellence, we also invite poor performers to undergo a Performance Improvement Plan which ranges in length from 3 to 6 months. When no performance improvement is exhibited, Talents are then asked to leave the company.

On top of the year-end performance reviews, we also have a variety of monetary reward mechanisms designed to motivate delivery of our company goals, key business strategies and KPIs. These can range from short-term rewards such as monthly commissions and an array of incentives to long-term rewards like annual KPI bonuses, pain/GAIN investment schemes (refer to page 53 for details) and our Co-Ownership Plan.

In total, around 250 of our top performers from Hong Kong and Guangzhou indulged on delightful food and adventuresome excursions to Tokyo Disney Resort.

Co-Ownership

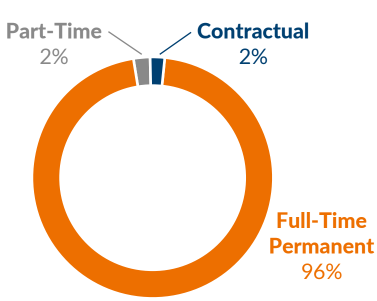
To attract, retain and motivate skilled and experienced Talents, we adopted Co-Ownership Plan II on 21 February 2015. Unlike the more traditional approach of giving stock options to a very limited group of top senior executives, Co-Ownership Plan II was open to all supervisor-and-above level Talents, spanning the Group's operations across Hong Kong and Guangzhou. Participating Talents could choose to invest their personal savings in the amount of between 2 and 12 months of salary to acquire the HKBN shares at full market price. At a ratio of 3 shares awarded for every 7 shares purchased, the shares were then vested over three anniversaries.

Under Co-Ownership Plan II, over 330 supervisor-and-above-level Talents have become our Co-Owners. Through this dual role as both investor and Talent, our Co-Owners performed with an unmatched level of responsibility and passion, whereby their interests were closely aligned with Shareholders'. As at August 2018, 186 and 39 Co-Owners from Hong Kong and Guangzhou respectively completed the Co-Ownership Plan II with 100% of their awarded shares vested.

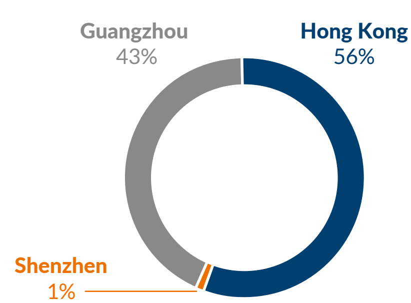
Co-Ownership Plan III, a restricted share unit scheme, was announced in November 2017. Subject to proposed acquisition of WTT announced by the Company on 7 August 2018, the operation of Co-Ownership Plan III was suspended until the finalisation of the proposed transaction. The Board may consider, at an appropriate time in the future, proposing a revised incentive plan.

As at 31 Aug 2018, the Group had 3,095 Talents, of which 2,981 are full-time permanent Talents

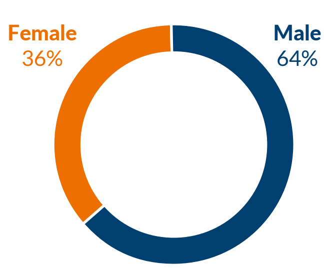
Employment Type



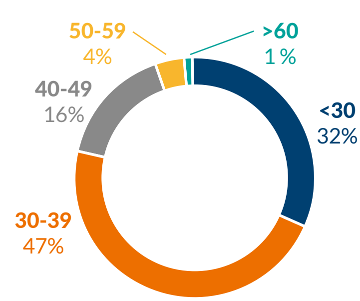
Location



Gender



Age Group



Talent Development

Investing in life-long development remains a crucial example of how we treat Talents as priority number one. Our commitment in this area is to ensure that our Talents have all the development opportunities and tools to stay ahead of the game in today's ever-changing business and technology environments.

We strongly believe in proactive learning. As such, our goal is to engage Talents and empower them to build on their strengths, actualise their dreams and live a purposeful LIFE.

The following table, highlights the amount of training we provided for our Talents in FY18:

	Total Training Hours		
Average Training Hours per Talent*	Operation Related Trainings	Leadership & Soft Skills Related Trainings	Compliance Related Trainings
30.43	81,100	9,989	3,095

* *based on a total of 3,095 Talents*

Leadership Development

On top of a comprehensive array of training across product, leadership and compliance training, our long-term development goal emphasises two key leadership competencies: leading disruption and empowerment. Through these concepts, we unleash the full potential of our Talents. From junior level to the most senior level Talents, these two key leadership competencies ensures that all HKBN Talents are not only well equipped as leaders who think and act innovatively, but are also eager to pass on their knowledge for subordinates and peers.

For ambitious Talents who missed out on a university education, our flagship development programme, "Next Station: University" ("NSU") has touched the lives of over 60 Talents with a life-changing opportunity to earn an internationally recognised bachelor's degree. With the company's full support, Talents who graduate make a significant step forward in transforming their career prospects.

Through NSU II, I am studying to create a better future for myself.

With what I've learned so far, my perspective at HKBN has transformed completely. Just like the way my boss thinks, I have a better appreciation for our broader business context.

Ben Kwok
Co-Owner & Assistant Technical Specialist

Besides the NSU programme, we've also empowered our Talents to transform their worldview perspectives via some of the best universities in the world. Partial tuition sponsorships have helped some of our Talents pursue professional qualifications and post-graduate education studies like Executive MBA programmes. We are also flexible to accommodate their study needs by offering full-paid exam leaves.

Future Leader Succession Pipeline

To increase the overall depth and quality of our succession pipeline, we continue to organise a range of programmes aimed at identifying and cultivating HKBN's future leaders. To this end, our Graduate Technical Trainees, Management Trainees and trainees in different departments are given rigorous exposure to varied career experiences through job rotations and bespoke challenges to fast track their growth.

As a group with a long term vision, we consider senior leadership development extremely vital to our succession planning strategy. Apart from attracting Talents externally, being able to groom Talents from within ensures continuity of our culture, our purpose and our objectives. High potential executives have been identified to shadow our Management Committee, and be involved in the committee's meetings and discussions over business strategy and management. This is to accelerate the growth and leadership development of promising Talents, as well as ensure business continuity.

Scan to watch our Talents' sharing how HKBN empowered their continuous education at world-class universities:

CY Chan **Mingo Tsang**

Entrepreneurial Learning by Design

In order to cultivate a culture of learning and development throughout the Company, we champion awesome Talent engagement. For a decade, we have embarked on an annual management experiential trip that has served to inspire our managerial Talents with a range of eye-opening exposure and unique learning experiences that have taken us to many different regions around the world. For example, 'InnoVIETour' was a design thinking challenge that took place in Vietnam in 2017, 'Seoulmates' brought us to South Korea in 2016, 'Le Tour de Force 2015' was a 145-km charity bicycle journey across southern Taiwan, South Africa in 2013, the US in 2012, Cambodia in 2011, and more. Cumulatively, these special trips not only helped us realise much greater company and personal breakthroughs, but they also enabled inter-departmental networking and experimentation to build a stronger, more united HKBN team.

"Le Tour de Force 2015" in Taiwan

"Seoulmates 2016" in South Korea

"InnoVIETour 2017" in Vietnam

In October 2017, 'InnoVIETour' challenged our 104 members of our management team to use their on-the-fly street smarts to bring disruptive business change for 10 stalls at the open air Ben Thanh Street Food Market in Vietnam. After a day's worth of ingenuity and hard work, we delivered a 44% increase in sales overnight. Adding a healthy dose of goodwill and purpose to the journey, John Wood, Founder of the remarkable NGO Room to Read, joined us in Vietnam to share insights about how purpose and profits can be complementary in business today. Overall, this trip provided a valuable opportunity for our entire management team to put innovation into practice, as well as understand how we can better integrate "Make our Hong Kong a Better Place to Live" into our business operation and strategy.

Opportunities for Young Talents

Living our Core Purpose and doing the right thing means we try our best to offer as many career and learning opportunities for young Talents as possible. This is wholly embraced via our Management Trainee ("MT") Programme, Departmental Trainee Programmes and Summer Internship Programme. Together, these provide young Talents with the chance to broaden exposure within and beyond HKBN, as well as take charge in a variety of new projects. Even in the selection process we adopt, like our LUCA Day for the MT Programme, wherein we invited many more applicants than there were positions available, our hope is to help new graduates gain useful criticism in their job hunting strategy. Entering the working world is both daunting and difficult, so having the right strategic mindset can make all the difference.

A union of diversity, our 2018 Summer Innovators came from different parts of the world to start their journey of learning and discovery at HKBN.

Learning, sharing and inspiration is a fact of everyday life inside HKBN.

Workplace Health & Safety

Key to the overall success of our business hinges greatly on how we ensure Talents can work in a healthy and safe environment. To achieve this, we espoused policies for an occupational health and safety management system that was regularly reviewed and tested across a diverse variety of conditions. In general, our objective was to establish a vigilant view over safety. This ensured that identification of hazards, assessment of risks, and the implementation of necessary control measures were undertaken on a regular and timely basis. At all times, we committed the appropriate resources to implement and maintain these standards, and worked diligently to comply with all health and safety regulations such as Occupational Safety and Health Regulation, CAP509A, Occupational Safety and Health (Display Screen Equipment) Regulation, CAP509B and Construction Sites (Safety) Regulation, CAP59I. During FY18, there were no substantiated court cases for non-compliance of the related laws and regulations.

Safety Committee

In April 2017, an in-house Safety Committee comprising Talents from several technical departments and the Talent Engagement Department was set up to formulate an Occupational Safety & Health Management Plan. Through regular review meetings, we defined the monitoring and review mechanism from which our health and safety objectives could be met.

Safety as a Priority

We appointed a certified safety consultant to manage occupational health and safety via activities such as safety advisory service, workplace safety inspections across office, warehouses, canteens and shops, risk assessment at network installation sites and job specific risk assessments for our various frontline departments.

Initiatives which helped promote Talent awareness of workplace safety included safety inspections, assessment of display screen equipment for office Talents, training for all Talents and job-related training for frontline Talents, as well as safety tips sent via email.

For technical departments, project leaders were tasked to conduct on-site inspections for activities such as road work and service installations at customer sites to ensure that the operational measures implemented adhered to our Safe Working Procedures guideline. Furthermore, Talents and new hires in our technical departments are required to undergo mandatory safety certification training and job specific qualifications training such as being certified as a Registered Electrical Worker.

In addition, we also provided safety briefings to all contractors carrying out work inside and outside our office premises. Fire exit routes and signage are always prominently placed on each of our office floors.

To ensure good air quality can be maintained for the well-being of HKBN Talents, an indoor air quality assessment was carried out in May 2018. Improvement measures were implemented to maintain good air quality throughout the workplace environment.

Training is regularly provided to elevate Talent awareness about safety in and around the office.

A first aid certification course is provided once a year to ensure HKBN Talents are equipped to handle sudden health emergencies.

Workplace Safety Training & Performance

The following workplace safety-related training workshops were organised in FY18:

- Annual first aid certificate course with a total of 43 HKBN Talents recognised as qualified First Aiders
- Quarterly in-house basic safety training to enhance job-related safety awareness of newly hired technicians
- Annual manual lifting training exercise to enhance Talents' safety awareness based on their occupational needs
- Annual Occupational Safety & Health Management Plan briefing session about HKBN's safety procedures
- Regular fire contingency training to refresh Talents' fire safety awareness
- Job specific safety training for enhanced safety awareness of frontline Talents

This year, our performance in health and safety in Hong Kong was encapsulated by the following:

Number of fatalities:	Nil
Injury rate:	1.3[1]
Lost day rate:	81.3[2]

1. Injury rate formula: Total number of work injury (23) x Total working hours for 100 full-time Talents (200,000)/Total working hours for all Talents (3,525,527.27)
2. Lost day rate formula: Total number of lost day (1,433) x Total working hours for 100 full-time Talents (200,000)/Total working hours for all Talents (3,525,527.27)

Awards and Recognitions

Awards/Certifications	Special Commendation Prize of 2017 Asian Human Capital Award	Best HR Award 2017 — Best Flexible Working Award	Most Innovative Employer Brand — Bronze Award
Conferred by	Singapore Ministry of Manpower and the Human Capital Leadership Institute	CTgoodjobs	LinkedIn

Suppliers

Long-term Win-Win Strategic Partnerships with Suppliers

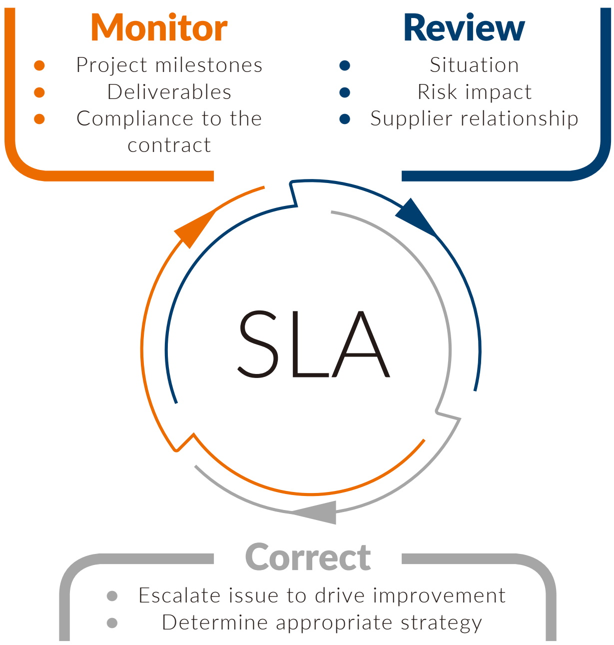
Above all, the primary objective of our sourcing activities is to ensure continuity of our product and service supply, which we accomplish by maintaining strong effective relationships between our business units and suppliers in a fair, open, transparent and mutually beneficial win-win manner. Building a long-term relationship with our suppliers requires two-way dialogue, and this cannot be done without trust, communication and shared values which include business ethics, integrity and commitment to deliver world-class products and services.

Assessing Supplier Performance

Supplier performance plays a crucial role in our operations. This ensures we can operate smoothly, as well as become equipped with the resilience capabilities to provide customers with outstanding service. For this reason, we value our suppliers like an extension of our operations, and consider them as business partners. To help reinforce our supplier management activities with a systematic and consistent approach, a Supplier Management Framework was first introduced in 2015.

As a result, we've incorporated Criticality Assessment to determine supplier criticality on a project by project basis. Key factors considered under this assessment include customer impact, operational impact, regulatory impact, legal impact, sustainability impact and impact to reputation. Such assessments help us identify potential risk much earlier and mitigate hazards in a proactive manner. Importantly, these assessments provide a solid framework on how we monitor and measure a supplier's performance as well as manage such relationships.

Through entering into supplier contract and service level agreements (SLA), we clearly specify mutual commitments, rights and obligations, roles and responsibilities of our suppliers and business partners. In addition, key performance indicators and other time-bound deliverables are also clearly set.



Effective Communication

Mindful that effective communication should operate on a two-way street, we aim to promote stronger engagement with our suppliers by conducting a supplier survey in FY19. The feedback gathered will not only provide greater insight in areas we have fallen short, but also strengthen communications and relationships for stronger supplier satisfaction.

Innovation & Flexibility

Rather crucially, we champion innovative and creative ideas whenever they can best serve the interest of our company and those of our suppliers. In a process that favours flexibility, our aim is not to necessarily seek better prices, but rather a better deal based on strategic requisition costs. As an example, this flexibility enables us to accept resource exchanges — whereby we exchange our telecommunication services for goods and services that we need at a given time — as a means of payment. This is done with the cooperation of our sales and functional teams, who work closely to help specify and evaluate our suppliers' needs as well as ours. Examples of resource exchanges included conferencing facilities, food & beverage outlets, serviced offices and co-working space, indoor activity park, etc.

Aligning Suppliers with HKBN Values

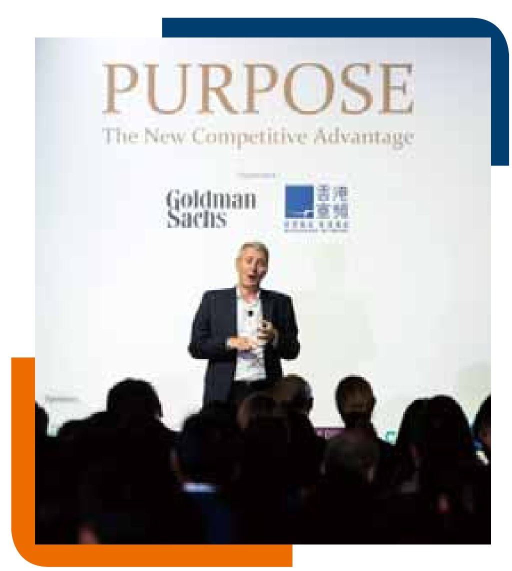
As a company committed to sustainability, we actively seek to work with suppliers who favour and operate on the principles of sustainable development. Over the past several years, we have made good progress in integrating sustainable procurement practices into our supplier chain activities. These included the incorporation of environmental, health and safety clauses as part of our supplier contracts and purchase orders. Similarly, we have added sustainability measurements as one of the sourcing criteria, as well as up-scaled sustainability weighting for our supplier selection scorecard and have communicated this message through RFx process.

For the purpose of diversity, HKBN endeavours to provide sourcing opportunities, when possible, to a broader range of businesses like social enterprise suppliers. Through such practices, we aim to generate a positive impact for environment, social, ethical and economic reasons.

In 2018, we finalised our Supplier Code of Conduct ("SCoC") concerning corporate governance, environment protection, health and safety standards and fair labour conditions. To ensure that suppliers understand our SCoC, we require our suppliers to endorse the SCoC during the supplier enablement and tendering process.

Suppliers are expected to either comply with our SCoC or have their own code of conduct which espouses a similar approach of expectations for their respective suppliers and subcontractors. To date, 100% of our top 20 vendors have endorsed our SCoC. Our goal is to continue monitoring progress with a target to achieve 90% endorsement from our top 100 vendors by the 2nd quarter of 2019.

To maintain win-win relationships, we regularly engage our suppliers and business partners with valuable insights, knowledge and opportunities that may benefit us all. In January 2018, we co-hosted a charity-cum-book launch of NGO Room to Read founder John Wood's latest work, *Purpose Incorporated: Cause and Capitalism in the 21st Century*. During the event, hundreds of business leaders (our partners and suppliers included) joined and came away inspired by John's journey of business, purpose and transformation.



Community

The most obvious and direct way we "Make our Hong Kong a Better Place to Live", is

through the work we do for our local communities.

As a socially-responsible business, we take a unique approach which goes beyond pure philanthropy to focus on efforts that generate purposeful good by way of sustainability and empowerment.

Rather than CSR, we've embraced Corporate Social Investment — led by our Talents and our company resources — to initiate an array of social investments that are helping our communities become gainfully self-sufficient in the long term.

Technology for Good

In one way or another, technology plays a significant role in our everyday lives. Unfortunately, not everyone in Hong Kong has an equal opportunity to access or enjoy the wonders of technology. As a telecom company, we're working harder to leverage our corporate strengths and Talent expertise to help local communities, especially youths, connect to the world and evolve into informed and responsible cyber citizens.

With this social mission in mind, our dedicated CSI team functions to identify social needs by listening to NGOs and others amongst our communities. In addition, the team helps lead HKBN Talent volunteers who drive various "Technology for Good" initiatives in collaboration with the HKBN Talent CSI Fund, our independently operated charity organisation funded by our Co-Owners.

Every year, Talents are encouraged to join a variety of Corporate Social Investment projects which contribute long-term sustainable benefits to our communities.

Talent Volunteering

Leading by example is an important way we contribute for social betterment. To this end, we encourage our Talents to actively leverage their expertise and make a difference by participating in volunteering activities. Every year, Talents who volunteer their time for a socially-beneficial cause are rewarded with up to two days of paid Volunteer Leave.

As a result, volunteerism at HKBN has continued to grow year after year. In FY18, we organised a total of 14 large-scale community projects. A total of 245 volunteers participated and contributed a total of 2,239 volunteer hours.

To foster greater engagement amongst our volunteers as well as ensure we provide magnanimous HKBNers with great volunteering experiences, we aim to introduce a series of evaluations, such as a volunteer survey and sharing sessions, in the coming year to listen and respond to our volunteers.

2,239

volunteer hours contributed

Major Community Programmes

For us, community betterment is not about giving money. The following highlight how we are contributing our time, expertise and resources to make a real difference:

Net's be Wise

Our children live in a world full of digital media, new technologies and cyber-related risks. In 2018, HKBN and HKBN Talent CSI Fund partnered with Junior Achievement Hong Kong to co-organise the "Net's Be Wise" initiative, Hong Kong's first-ever cyber wellness movement. This 18-month pilot programme is designed to enhance the Digital Intelligence ("DQ") of 2,000 primary school students aged 8–12 and offer solutions to help mitigate potential cyber risks.

In the seven months since launch, we have empowered around 800 students to acquire eight digital citizenship competencies through the DQ World online learning platform and offline school workshops. Encouragingly, our work has been greeted with affirmative feedback from participating schools, educators and students.

Scan the QR code to watch a brief introductory video about "Net's Be Wise"

Enhancing Digital Intelligence of

2,000

primary school students

"Net's be Wise" is empowering students to acquire eight digital citizenship competencies through the DQ World online learning platform as well as offline school workshops.

Daniel Chi Wah Wong, the principal of ELCHK Hung Hom Lutheran Primary School said, "The content of the programme is comprehensive and dynamic. Students were enthusiastic about cyber wellness knowledge, while teachers can now better handle the teaching methods of cyber related topics."

Maheen, a participating student from Pat Heung Central Primary School said, "After the programme, I've reduced a lot of my screen time and now I know how to confront cyberbullying."

Ultimately, our goal is to extend the "Net's be Wise" programme across many more primary schools and develop a functional DQ index for Hong Kong. Through this programme, we hope a greater number of local primary school students can make judicious decisions in cyberspace and avoid cyber risks.

HKBN PC Doctors

First introduced in 2015, our award-winning "PC Doctors" programme is an on-going programme designed to narrow the digital divide in the community.

By volunteering their time to make scheduled home visits, our team of Certified Professional Engineers have helped diagnose and fix computers free of charge for Hong Kong's underprivileged families. Beyond that, our "PC Doctors" have even expanded their work into a series of IT classes tailored to meet the technological needs of underprivileged children and the elderly. Since May 2015, our team of PC Doctors have provided 1,049.5 hours of service for nearly 700 families and individuals. At present, the programme is under review, with a view to expanding and enhancing its scope of service.

(Left) Billy Tsang, Senior Service Technician, served as a volunteer to help visually impaired persons cope with using digital devices.

After completing Man Kiu's library revamp in February 2018, we launched the e-reading corner furnished with tablets and thousands e-books.

E-reading Corner for Man Kiu Association Primary School

HKBN and the HKBN Talent CSI Fund joined hands to build a brand-new learning experience for students of the under-resourced Man Kiu Association Primary School. Under our sponsorship arrangement, the school launched an e-reading programme with new tablets and e-books added to its library, and a series of augmented reality-based experiences for students that combined virtual travelling with book creation. As a direct result of this programme, the revamped look and feel, as well as the e-learning technology itself have combined to provoke much greater interest and excitement. During lesson breaks, the e-library is now full of eager students. Astonishingly, 61% of students now read at least one e-book on a weekly basis, and nearly half of the students say they feel much more inspired to read than before. By making it easier to access thousands of e-books both at school and at home, the students now see reading as fun and convenient.

Youth Upward Mobility ("YUM") Programme

Since September 2016, we have joined the Hong Kong Church Network for the Poor's Youth Upward Mobility programme to help secondary school graduates who underperformed in their public examination reinvent their futures. Our YUM programme provides such individuals with opportunities to develop their careers.

For our part, we offered a variety of gainful job opportunities so that over 10 secondary school students could develop their professional skillsets and remain competitive members of society. Participants gained excellent work experiences in broadband engineering, network operation and customer servicing. HKBN Talents also volunteered to serve as career and life mentors for our YUMers, who also received regular time off to continue their education during evenings and participate in community volunteer services.

I'm glad that YUM programme has given me opportunities to work and study.

Not only have I acquired broadband engineering and customer servicing skills, but my mentor, Rachel, has also been helpful in guiding me to plan for my future.

Ken Sin, YUMer
Operation Executive

These youngsters demonstrate great perseverance and enthusiasm.

I hope all of them will conquer difficulties and live a fulfilled life.

Rachel Chan, Mentor
Co-Owner & Manager — Commercial Sales

"Tech" a Youth

To give underprivileged students a chance to explore the joy of technology under the guidance of HKBN volunteers, "Tech" a Youth programme was launched in January 2018. The programme included a range of learning activities, which aimed to inspire students about the possibilities of technology when it becomes a tool in their hands.

Held in June 2018, our "Global Phone Macau Learning Tour" was a great example of technology learning activity. Through our digital orienteering exercise, students were tasked to navigate Macau's various attractions and complete different missions by utilising Global Phone features like information searching and location tracking. The activity provided them with a brand-new experience of technology and triggered practical understandings of the value and convenience of tech luxuries many of us take for granted.

In addition, our volunteers also visited children living in tiny sub-divided homes. They introduced the concept of smart homes and helped transform the children's living spaces into better learning environments. A series of workshops were conducted for various groups of underprivileged students, enabling them to enjoy hands-on experiences of 3D pen drawing and planet lamp making. From a practical point of view, these activities helped enable STEM learning amongst underprivileged groups.

Via our "Tech" a Youth programme, HKBN volunteers (top centre) Chris Kong, Senior System Analyst and (right) Ben Ip, Senior Officer — Project Management led a group of primary school students on a digital learning-inspired travel excursion in Macau.

At the YUM Programme graduation ceremony, our two YUMers (back row, 2nd from right) Ken Sin (Operation Executive) and (back row, 4th from right) Ka-ho Chan (Service Technician) were proudly joined by their HKBN mentors, (back row, 2nd from left) Alfred Au, Account Manager — Corporate Sales, (front row, 2nd from left) Rachel Chan, Co-Owner & Manager — Commercial Sales (front row, 2nd from right) Maggie Liu, Co-Owner & Senior Manager — Major Corporate Account Relations.

HKBN Volunteer Day 2017

On 16 September 2017, we organised our largest annual CSI event, HKBN Volunteer Day. Focused on the idea of exploration, we organised four volunteer activities, namely Canyon Challenge, Crate Climbing Challenge, Miner Experience Tour and Hiking at Lamma Island, for over 100 HKBN volunteers to participate in. At their core, all of these activities were conceived to help underprivileged students discover and challenge themselves.

Throughout the day, our volunteers also captured the students' adventures by recording various virtual reality ("VR") videos. These cutting-edge videos were later shared at a workshop for people with disabilities, who happily tried out the immersive adventures despite their challenge in mobility.

Volunteer Awards

To encourage and promulgate volunteerism throughout the Company, we handed out Volunteer Awards to six Talents who demonstrated an amazing passion and commitment for our communities. As expected, our award winners were altruistic individuals who can always be counted on to lend a hand; in FY18 these Talents were our most active volunteers (in terms of the number of hours and the diverse number of volunteer activities involved).

HKBN organised a VR experience workshop for people with disabilities to get a "virtual feel" of visiting different places.

Our HKBN volunteers served as guides for a team of students hiking Lamma Island.

Acknowledging their outstanding passion for community volunteerism throughout FY18, HKBN Talents were presented with Volunteer Awards.

Social Enterprise Partnership

Over the years, HKBN has actively sought out opportunities to support or collaborate with social enterprises in a variety of business areas. As always, our goal is to empower and enable more social enterprises to thrive and become self-sustainable.

Since 2014, we have partnered with iEnterprise to offer work opportunities to a team of physically disabled individuals, who work diligently for our 1083 telephone number enquiry service. In 2018, we expanded this collaboration with iEnterprise by extending part of our online chat service to their dedicated team. Specialised customer service training was provided to equip this dedicated team with the necessary skillsets and knowledge. We believe this expanded scope of service will help diversify their competencies, as well as better improve their career prospects.

Across a broad range of areas, we actively collaborated with social enterprises on a daily basis. One of our in-house canteens, Sharing Kitchen, is a social enterprise that provides entrepreneurship opportunities for home cooks. To diminish our reliance on throwaway items, we appointed another social enterprise, Tung Wah Group of Hospitals "WashEasy", to provide daily washing service for canteen cutlery and containers. In 2018, we installed in our office "Well#", a smart water station developed by social enterprise "Urban Spring", to promote sustainable eco-friendly habits among our Talents. Since 2013, the total accumulated amount we've spent on ethical consumption has exceeded HK$10.74 million.

Our Way Forward

Motivated by the success that has been made, we will continue our community investment endeavours by driving sustainable social value creation through the sharing of company resources and Talent volunteering. Where possible, a social impact assessment for our CSI initiatives will be undertaken so that we can better comprehend our return on social investment and make improvements based on quantifiable data and feedback from various stakeholder communities.

On the Talent volunteering front, a brand new "Team Building **X** Volunteering" series of initiatives will be introduced in the coming year. These unique exercises will ensure that Talents can volunteer together to strengthen our esprit de corps, while we embrace our social purpose to make our Hong Kong a better place to live.

Awards & Recognitions

Award and Certifications	Conferred by
2017 Tsuen Wan & Kwai Tsing District Caring Shop and Company Award Scheme — Outstanding Caring Shop and Company	Social Welfare Department — Tsuen Wan/Kwai Tsing District Social Welfare Office
Caring Company Scheme — 10 Years Plus Caring Company Certification	The Hong Kong Council of Social Service
HKQAA CSR Plus Mark	Hong Kong Quality Assurance Agency
The 8th Hong Kong Outstanding Corporate Citizenship Award — Bronze Award (Enterprise) — Bronze Award (Volunteer Category)	Hong Kong Productivity Council
Tithe Ethical Consumption Movement 2017 (TECM 2017) SE Supporter Plus Award	The Fullness Social Enterprises Society

Environment

We are constantly exploring better, more efficient ways to

minimise our carbon footprint and operational waste.

A significant component of our eco-impact starts from consumption of electricity at our offices, data centres as well as other network-related operations, and extends to the way waste is generated through our administrative, marketing and customer service related activities. Mindful of this, our commitment to mitigate these factors ensures that responsible environmental practices and continual improvements are embedded in our daily operations.

A clearly defined Environmental Policy is in place to govern how we achieve reductions in energy consumption, paper consumption and waste generation. As our operation does not involve significant emissions of air and water pollutants, or pose any significant bearing on natural habitats, these aspects are not covered in our current Environmental Policy.

Our Administration Department oversees the environmental priorities and performance of the Group. Key performance indicators were set together with our key functional units, with reference to the baseline analysis conducted by our energy consultant. Performance reviews with functional units were carried out regularly to monitor progress and identify discrepancies, if any, between the actual performance data and the expected outcome. Corresponding corrective measures were implemented as needed.

During FY18, there were no substantiated court cases for non-compliance of environmental laws or regulations relating to emissions. In terms of waste management, we have complied with Waste Disposal (Chemical Waste) (General) Regulation (Cap. 354C of the Laws of Hong Kong) and The Hazardous Chemicals Control Ordinance (Cap. 595 of the Laws of Hong Kong).

Pre-assurance of Environmental Performance

This year, we've appointed an external consultant to conduct pre-assurance for our environmental data. The findings provided insights in the quality of our data and served as a valuable internal management tool of our environmental data collection process and the presentation of its disclosure. Solid and reliable data will give us a good foundation not just for target setting, but also the continuous development of our ESG strategies.

A Smarter Approach to Minimise Carbon Footprint

A key pillar of our eco-strategy is based on clever innovation. This approach, which champions new solutions and enhancements to workflow, ensures that ingenuity and smart ideas play a big role in how much we improve year-on-year. With this guiding us, we've strived to enhance our energy efficiency with the following green initiatives:

"Something from Nothing" Energy Saving Programme

Since 2016, we have embarked on an innovative journey of energy and cost saving. "Something from Nothing" is an energy performance project initiated with the help of an external energy consultant. In a smart and highly unique way, "Something from Nothing" required no initial capital investment, despite the numerous energy efficiency upgrades carried out inside our office environment. The investment for all concurred retrofitting was fully funded by our consultant, who shared a fraction of our energy cost savings as compensation.

The first phase of improvement upgrades primarily focused on augmenting air-conditioning and lighting system efficiency at our office and data centre locations. From July 2016 to June 2018, these actions led to 1,324,000 kWh of electricity saved.

Following the remarkable reductions achieved by "Something from Nothing" at our office, in July 2017 the project scope was extended to include part of our data centre operations in a trial run. As a result, we saved 323,000 kWh electricity over the past 12 months.

In May 2018, we conducted further enhancement work to replace a chiller plant at our headquarters. We anticipate that another 700,000 kWh of electricity consumption will be saved annually.

Since commencement in 2016, "Something from Nothing" phase 1 and phase 2 have resulted in a total of 1,730,000 kWh in electricity savings.

Emissions data for FY18

Greenhouse gas emissions[1]	**29,654.1 tCO_2 e**
Scope 1 emission[2]	**133.03 tCO_2 e**
Scope 2 emission[3]	**29,056.82 tCO_2 e**
Scope 3 emission[4]	**464.25 tCO_2 e**
Greenhouse gas emissions intensity	**7.5093 tCO_2 e/$ million revenue**
Direct energy consumption[5]	**478,276 kWh**
Direct energy intensity	**121.11 kWh/$ million revenue**
Indirect energy consumption[6]	**53,293,332.29 kWh**
Indirect energy intensity	**13,495.40 kWh/$ million revenue**
Water consumption[7]	**4,675 m^3**
Water intensity	**1.18 m^3/$ million revenue**

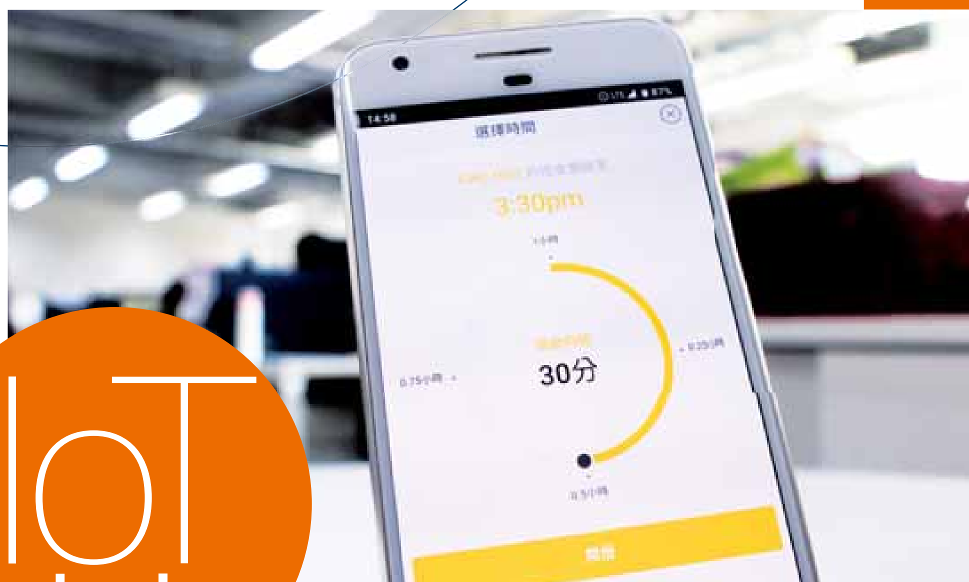
 # The above environmental data covers operations owned and controlled in Hong Kong including offices, shop, data centres, hub sites and switch rooms.

1. *Carbon emissions generated from operations owned and controlled in Hong Kong including offices, shops, data centres, hub sites and switch rooms. During FY18, we reduced carbon emissions by 7.8% across our Hong Kong operations compared to FY17 performance.*
2. *Scope 1 emissions are direct GHG emissions from sources that are owned or controlled by HKBN such as emissions from fuel of company vehicles and genset, the refrigerant of air conditioning and chiller.*
3. *Scope 2 emissions are indirect GHG emission resulting from the generation of electricity purchases by HKBN.*
4. *Scope 3 emissions included indirect GHG emissions from sources not owned or directly controlled by HKBN but related to our activities such as office paper usage and oversea transportation.*
5. *Vehicle, generator and mobile generator fuel consumption are included in the direct energy consumption.*
6. *Electricity purchases are included in the indirect energy consumption.*
7. *Water consumption included water used in offices, data centres and some of the shops. Since there is no water supply at hub sites and switch rooms, this part is not included.*

Achieved

1,730,000 kWh

electricity consumption reduction since 2016



IoT Technology

By adopting an IoT solution, we can now control our lighting energy consumption via a smartphone app.

As part of the "Something from Nothing" initiative, a chiller plant was replaced to achieve higher energy efficiency and cost savings.

IoT Energy Consumption Optimisation and Management

Besides upgrading our facilities with higher energy efficiency, our use of technology to change energy consumption habits was also proved effective. In January 2018, we adopted an IoT lighting control system at one of our office floors. This lighting solution equipped us with intelligent office lighting control for optimised energy reduction and operational efficiency.

Traditional approaches to lighting typically cover relatively large lighting zones. Energy goes wasted when unoccupied areas are also illuminated. First rolled out as a pilot programme, our smart lighting control system allowed HKBNers to personalise lighting in a small lighting zone via a mobile application. More natural illumination was also adopted — leading to a reduction in energy consumption and CO_2 emissions. In addition, a timer feature was introduced so that our lights would automatically switch off during lunch and after normal working hours. A handy data engine has also made energy consumption data accessible for easy performance evaluation.

Six months after this pilot scheme was first introduced, 36% of energy consumption was saved. With these satisfactory results, we are currently assessing the feasibility to extend the solution to our other office floors.

Over

97%

of our residential fixed-line service customers receive their bills electronically

Future improvements

Apart from exploring opportunities to further improve energy efficiency, we've also taken green initiatives into account for our network related operations, office renovations and the use of renewable energy.

As affirmed by our energy consultant, our data centre and network related operations accounted for more than 90% of our overall electricity consumption. In response, we are exploring opportunities to apply energy-efficient solutions at our network hub sites. Recently, we have carried out a trial for air conditioning energy optimisation at dedicated hub sites. The results were very positive, showing that our targeted hub site temperatures could be maintained with a 24% reduction in electricity consumption.

All-round Waste Minimisation

Waste Management and Resource Consumption

Throughout FY18, we continued to adopt a 4R (reduce, reuse, recycle, replace) strategy to minimise waste across our operations.

In order to integrate waste reduction and better eco-workflow processes into our daily operations, an Environmental Policy, Environmental Handbook and Waste Management Guidelines were introduced to educate our Talents and contractors. Collectively, they underscore our preferred methods and practices for minimising landfill waste, which we address by reducing waste at its source, reusing when possible and diverting waste for recycling.

To ensure proper disposal of waste, an authorised vendor worked closely with us to manage and oversee potential operational waste, as well as gather and process recyclable materials and e-waste. Only waste materials which cannot be diverted were delivered to the landfills

Reducing Paper Usage

As a responsible company, we've made every effort to reduce the environmental impact of our paper usage. In 2016, we began offering our customers an option to receive billing statements by e-mail rather than as printed statements. Over 97% of our residential fixed-line service customers, and around 80% of our enterprise solutions customers, have chosen to receive their bills electronically. To minimise the environmental impact of our printed paper materials, in 2017 we expanded the use of FSC-certified paper to letterheads and envelops. FSC-certified products are sourced from sustainable timber sources and are considered less damaging to natural eco-systems.

In addition, to achieve paperless workflow across our operation, we have aggressively developed various workflow systems that have replaced traditional paper forms and physical documentation with e-ordering systems, e-IT support workflow and e-administration self-serve systems.

Operational Enhancements for Waste Reduction

Easy roll banners are commonly used throughout our business to promote HKBN's array of products and services. In 2018, we began embracing options to reuse and recycle these banners. To this end, we requested that our supplier reuse parts of the banners, and that any remaining components be sent for recycling. Through this simple solution, we estimate that at least 2,799 kg of materials will be saved from entering landfills annually.

Minimising Resource Dependency

As part of our broader waste reduction goal, our Talents were encouraged to choose reusable cutlery instead of their plastic equivalent. Not only have we offered a reusable cutlery lending service via our Talent canteen Broadband Delight, but a social enterprise, Tung Wah Group of Hospitals "WashEasy", was also appointed to provide daily washing service for used cutlery and containers. As a result, 102,000 plastic cutlery items were spared from landfills every year, while about $100,000 of economic value was shared with the social enterprise last year. In addition, we also adhered to a "no plastic straw" policy at our canteen.

Besides encouraging customers to receive their bill statements via email, we also responsibly use FSC-certified paper for letterheads and envelops.

To reduce plastic waste, we have replaced all office-use cups with reusable mugs.

To reduce consumption and waste at the source, signage are placed to remind Talents to minimise use of paper towels and water.

Waste data for FY18

Hazardous waste generated[1]	83.98 tonnes
Hazardous waste intensity	0.02 tonnes/$ million revenue
Non-hazardous waste generated[2]	132.94 tonnes
Non-hazardous waste intensity	0.03 tonnes/$ million revenue
Waste recycled[3]	73.87 tonnes

 # The above environmental data covers operations owned and controlled in Hong Kong

1. *Hazardous waste generated includes uninterruptible power system and lighting tube only.*
2. *Non-hazardous waste includes construction waste and general waste in offices, shops and data centres.*
3. *Waste recycling includes paper, plastic, metal, wooden, e-waste and glass. During FY18, the overall waste recovery rate of our Hong Kong operations was at 55.57%.*

Knowing every small gesture matters, our volunteer T-shirts are requisitioned to come without any kind of packaging.

Likewise, our vendors were instructed to stop selling plastic bottled and Tetra Pak drinks from office vending machines. Altogether, a total of 7,200 plastic bottles and cartons were reduced annually.

For business cards, we pledged to stop accepting plastic cases that house our printed cards. With this move, we estimate that at least 1,000 plastic cases were saved from entering landfills annually.

In June 2018, HKBN took part in the “No Tissue Day” awareness event, which we used to minimise our usage of tissue paper. During the event, all paper towels in our pantries and Talent canteens were removed.

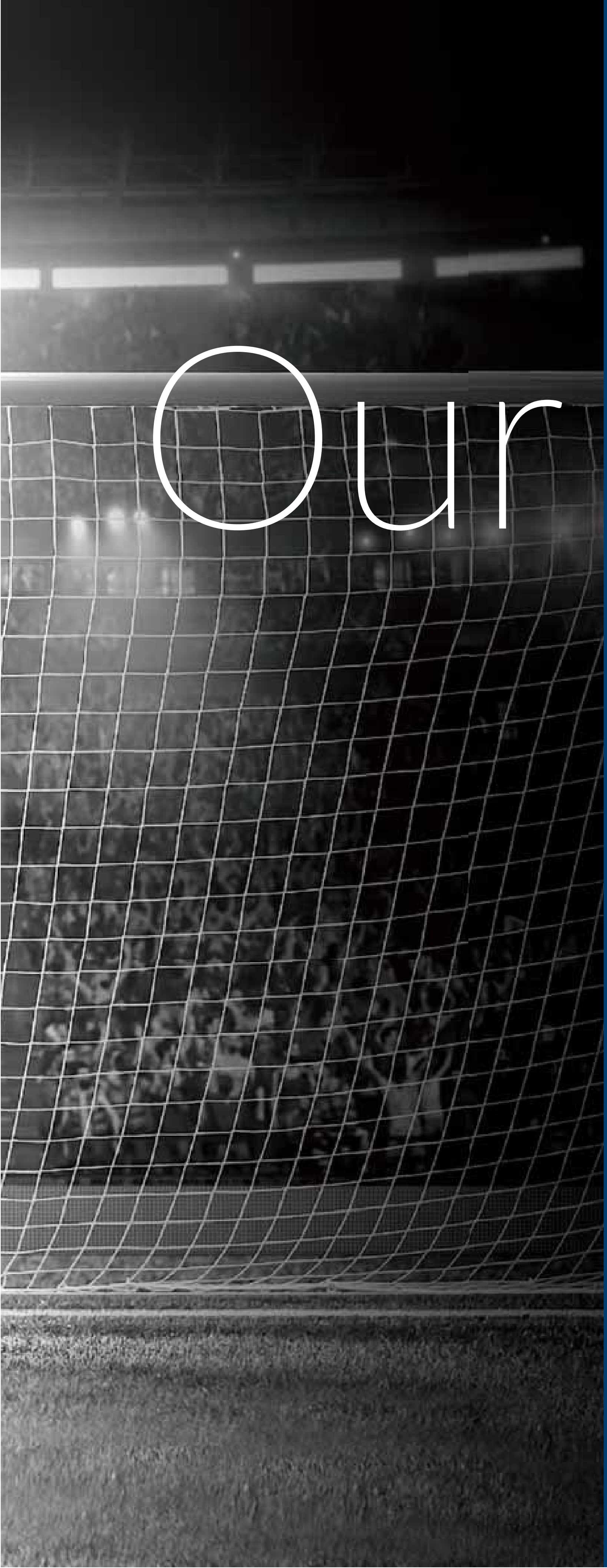
Future improvements

To further reduce waste in the future, we are stepping up efforts to enhance Talent awareness and embed sustainability throughout our chain of operations. Consequently, we are taking a closer look at the product delivery logistics from our different vendors, and will continuously collaborate with them to reduce waste at source in ways such as forgoing packaging or changing the frequency of order deliveries (i.e. reduce shipping and transport).

HKBN Talents have pledged to reduce their use of plastic products.

Awards & Recognition

Awards & Certificates	Conferred by
Low Carbon Office Operation Programme – Gold Label	World Wide Fund for Nature Hong Kong
Wastewi$e Certificate – Excellence Level	Environmental Campaign Committee
Hong Kong Green Organization	Environmental Campaign Committee
CarbonCare Action Label	CarbonCare InnoLab
GREEN[PLUS] Award 2017 – Retail & Service – Chain Store Category – Bronze Award	CLP Power Hong Kong Limited
Carbon Reduction Certificate	Environmental Campaign Committee



Our Governance

A striving commitment to not only comply but exceed the requirements of current laws and regulations sets the framework for everything we do.

By operating with strong ethics, integrity and responsibility, we provide great accountability and transparency for our many stakeholders. To this end, we are constantly striving to enhance our governance structure, our policies and practices, so that proper control systems are in place to effectively safeguard HKBN and our stakeholders.

Corporate Governance Report

The Directors are pleased to present this "Corporate Governance Report" for the year ended 31 August 2018.

Corporate Governance Practices

The Company is committed to the establishment of a good standard of corporate governance practices by emphasising transparency, accountability and responsibility to our stakeholders, which are considered essential to safeguard the integrity of the Group's operations and maintain stakeholder trust in the Company.

Corporate Governance Practices and Corporate Governance Code

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 Listing Rules on the Stock Exchange throughout the year ended 31 August 2018 except for the following deviation:

Code Provision A.5.1 of the CG Code provides that the Nomination Committee should be chaired by the Chairman of the Board or an Independent Non-executive Director. However, the Nomination Committee of the Company is chaired by Mr. Chu Kwong YEUNG, 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 role. Since Mr. Yeung is involved in the day-to-day management of the Company and can provide valuable insight on the suitability of a proposed Director, the Board considers that he is capable of assuming the responsibility of the Chairman of Nomination Committee by leading the process of identifying suitable candidates and making recommendations to the Board. As at the date of this annual report, the Nomination Committee comprises a majority of Independent Non-executive Directors, which ensures a balance of power and representation of Independent Non-executive Directors.

Board of Directors

Roles and Responsibilities

The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors make decisions objectively in the interests of the Company.

Physical Board meetings are normally held. Matters which are immaterial and may not cause potential conflicts of interest will be dealt with by way of written resolutions. The Company Secretary prepares minutes which are recorded in sufficient detail of matters considered by the Board and the decisions reached, with the final version open for inspection at any reasonable notice by any Director. The Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings with reasonable meeting notice.

The day-to-day management, administration and operation of the Company are delegated to the Executive Vice-chairman, Chief Executive Officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

Board Composition

The Board currently comprises six Directors, including two Executive Directors (Mr. Chu Kwong YEUNG and Mr. Ni Quiaque LAI), one Non-executive Director (Ms. Deborah Keiko ORIDA) and three Independent Non-executive Directors (Mr. Bradley Jay HORWITZ (Chairman), Mr. Stanley CHOW and Mr. Yee Kwan Quinn LAW). The Directors' biographical details are set out in the "Board of Directors and Senior Management" chapter on pages 12 to 17. None of the members of the Board are related to one another.

Board Diversity

The Board has adopted a policy on the diversity of Board members, according to which, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The Board should also have a balanced composition of Executive, Non-executive and Independent Non-executive Directors to ensure that active, unbiased and diverse advice is brought to the Company and that there is a strong independent element on the Board which can effectively exercise independent judgment.

An analysis of the Board's current composition based on the measurable objectives is set out below:

Gender

Male
Number of Director(s): 5

Female
Number of Director(s): 1

Designation

Executive Directors
Number of Director(s): 2

Non-executive Director
Number of Director(s): 1

Independent Non-executive Directors
Number of Director(s): 3

Ethnicity

Chinese
Number of Director(s): 4

Non-Chinese
Number of Director(s): 2

Age Group

46-55
Number of Director(s): 3

56-65
Number of Director(s): 3

Educational Background

Science
Number of Director(s): 2

Business Administration
Number of Director(s): 3

Arts
Number of Director(s): 2

Commerce
Number of Director(s): 2

Accounting & Finance
Number of Director(s): 2

Legal
Number of Director(s): 2

Business Experience

Telecommunications
Number of Director(s): 3

Legal
Number of Director(s): 2

Banking
Number of Director(s): 2

Accounting & Finance
Number of Director(s): 2

Chairman and Chief Executive Officer

As at 31 August 2018, the roles of the Chairman and the Chief Executive Officer are served by Mr. Bradley Jay HORWITZ and Mr. Chu Kwong YEUNG separately. The Chairman is responsible for leadership of the Board and for ensuring that the Board functions effectively and acts in the best interests of the Company. In performing the role of Chairman, responsibilities mainly include:

(a) providing leadership and ensuring effective performance by the Board of its responsibilities, including that it acts in the Company's best interests;

(b) ensuring that all key and appropriate issues are discussed by the Board in a timely manner;

(c) leading the Board in establishing good corporate governance practices and procedures for the Group;

(d) encouraging constructive and timely communication between the Board and the management; and

(e) ensuring effective communication with shareholders and ensuring that their views are communicated to the Board.

Subject to specific delegations by the Board from time to time, in performing the role of Chief Executive Officer, responsibilities include:

(a) leading the management in the daily operations of the Group;

(b) recommending policies, business plans and strategic directions for Board approval;

(c) ensuring the strategies and policies approved by the Board are effectively implemented; and

(d) keeping the Board informed of material developments in the Group's business.

Independent Non-executive Directors

During the year ended 31 August 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise, and appointed Independent Non-executive Directors representing at least one-third of the Board.

In addition, the Company has received from each of the Independent Non-executive Directors a confirmation of their independence for the year ended 31 August 2018 pursuant to Rule 3.13 of the Listing Rules, and considered all of them to be independent.

Appointment and Re-Election of Directors

The appointment of a new Director is made on the recommendation of the Nomination Committee and the Board and by the shareholders in a general meeting. Any Director who is appointed by the Board to fill a casual vacancy on the Board shall retire at the first general meeting after appointment. Any Director who is appointed as an addition to their number shall hold office only until the next following annual general meeting.

Currently, all Directors are subject to retirement by rotation at least every three years and re-election in accordance with the provision of the Listing Rules and the Articles. At least one-third of Directors shall retire from office every year at the Company's annual general meeting.

Directors' Training

According to the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. As such, briefing materials are provided to each newly appointed Director (if any) to ensure that the Director is familiar with the role of the Board, the legal and other duties and responsibilities necessitated as Director as well as the business and corporate governance practices of the Company.

All Directors have provided a record of the training they received during the year ended 31 August 2018 to the Company, which includes attending seminars, and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

Directors' Liability Insurance and Indemnity

The Company maintains appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended 31 August 2018, no claims were made against the Directors.

Meetings

The Board meets on a regular and on an ad hoc basis, as required by business needs. The attendance of each Director at the Board meetings, committee meetings and general meeting during the year ended 31 August 2018 is set out in the following table:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
	Number of Meetings Attended/Held [1]				
Chairman and Independent Non-executive Director					
Mr. Bradley Jay HORWITZ	14/14	3/3	N/A	2/2	0/1
Executive Directors					
Mr. Chu Kwong YEUNG	14/14	3/3[2]	2/3	2/2	1/1
Mr. Ni Quiaque LAI	14/14	3/3[2]	N/A	N/A	1/1
Non-executive Director					
Ms. Deborah Keiko ORIDA	14/14	2/3[2]	N/A	2/2	0/1
Independent Non-executive Directors					
Mr. Stanley CHOW	13/14	3/3	3/3	2/2	0/1
Mr. Yee Kwan Quinn LAW	13/14	3/3	3/3	2/2	0/1

Notes:

(1) Directors may attend meetings in person, or by means of telephone or video conference in accordance with the Articles. The figures exclude resolutions in writing signed by all Directors.

(2) Although Mr. Chu Kwong YEUNG, Mr. Ni Quiaque LAI and Ms. Deborah Keiko ORIDA are not the members of the Audit Committee, they were invited by the Audit Committee to attend 3 Audit Committee meetings during the year ended 31 August 2018, and they were prohibited from voting or being counted as quorum during those 3 meetings.

Board Committees

The Board has established three Board committees, namely the Remuneration Committee, the Nomination Committee and the Audit Committee.

Remuneration Committee

The Remuneration Committee was established with written terms of reference which are available for view on the Company's website and HKEXnews website.

The Remuneration Committee currently comprises three members, namely Mr. Stanley CHOW, Mr. Yee Kwan Quinn LAW and Mr. Chu Kwong YEUNG. The Chairman of the Remuneration Committee is Mr. Stanley CHOW, an Independent Non-executive Director of the Company. The majority of the Remuneration Committee members are Independent Non-executive Directors.

The primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration, make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, make recommendations to the Board on the remuneration of Non-executive Director and Independent Non-executive Directors, and review and approve the compensation arrangement for Directors and senior management in the event of loss or termination of office.

During the year ended 31 August 2018, the Remuneration Committee held three physical meetings to review the remuneration package and discretionary bonus of Directors, senior management and Talents, review the remuneration policy of the Company, as well as propose the adoption of Co-Ownership Plan III and recommend for Board's approval.

Pursuant to B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 August 2018 is set out in note 6 to the consolidated financial statements.

Nomination Committee

The Board has a Nomination Committee with written terms of reference in compliance with the CG Code, setting out the duties (containing the minimum specific duties as set out in the CG Code) and authority of the Nomination Committee. The terms of reference of the Nomination Committee are available for view on the Company's website and HKEXnews website.

The principal duties of the Nomination Committee are to review the structure, size and composition of the Board and the Board committees (including the skills, knowledge and experience) make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identify individuals suitably qualified to become Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships, assess the independence of Independent Non-executive Directors of the Company, and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The Nomination Committee currently comprises five members, namely Mr. Stanley CHOW, Mr. Bradley Jay HORWITZ, Ms. Deborah Keiko ORIDA, Mr. Yee Kwan Quinn LAW and Mr. Chu Kwong YEUNG. The Chairman of the Nomination Committee is Mr. Chu Kwong YEUNG, an Executive Director of the Company.

During the year ended 31 August 2018, the Nomination Committee held two physical meetings to review the independence of Independent Non-executive Directors, consider the re-election of the Directors at the forthcoming annual general meeting of the Company, review the composition of the Board, discuss the succession planning of the Group, as well as nominate the Executive Vice-chairman and the Chief Executive Officer of the Group.

Audit Committee

The Audit Committee was established with written terms of reference which are available for view on the Company's website and HKEXnews website.

The Audit Committee meets, at least twice a year, with the external auditor to discuss their audit plan and any area of major audit and internal control concern during the audit or review. At least twice a year the Audit Committee meets with the external auditor without Executive Directors present.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor and any questions of its resignation or dismissal, review of the Company's financial information and oversight of the Company's financial reporting system and internal control system and procedures. It is also responsible for reviewing the interim and annual results of the Company.

The audited consolidated financial statements for the year ended 31 August 2018 have been reviewed by the Audit Committee.

The Audit Committee currently comprises three members, namely Mr. Yee Kwan Quinn LAW, Mr. Stanley CHOW and Mr. Bradley Jay HORWITZ. The Chairman of the Audit Committee is Mr. Yee Kwan Quinn LAW, an Independent Non-executive Director of the Company. All of the Audit Committee members are Independent Non-executive Directors. None of the members of the Audit Committee are a former partner of the Company's existing external auditor.

During the year ended 31 August 2018, the Audit Committee held three physical meetings with the following summary of work performed:

- reviewed the audited consolidated financial statements, the annual report and the annual results announcement for the year ended 31 August 2017 and recommended them for Board's approval;
- reviewed and approved the reappointment of KPMG as the Company's auditor, with a recommendation to the Board for the re-appointment of KPMG at the 2017 Annual General Meeting;
- reviewed the internal audit work plan, the risk management and internal control systems of the Group during the year;
- reviewed the interim report and the interim results announcement for the six months ended 28 February 2018 and recommended them for Board's approval; and
- discussed the audit plan with the external auditor and reviewed the professional fees for the audit services.

Corporate Governance Functions

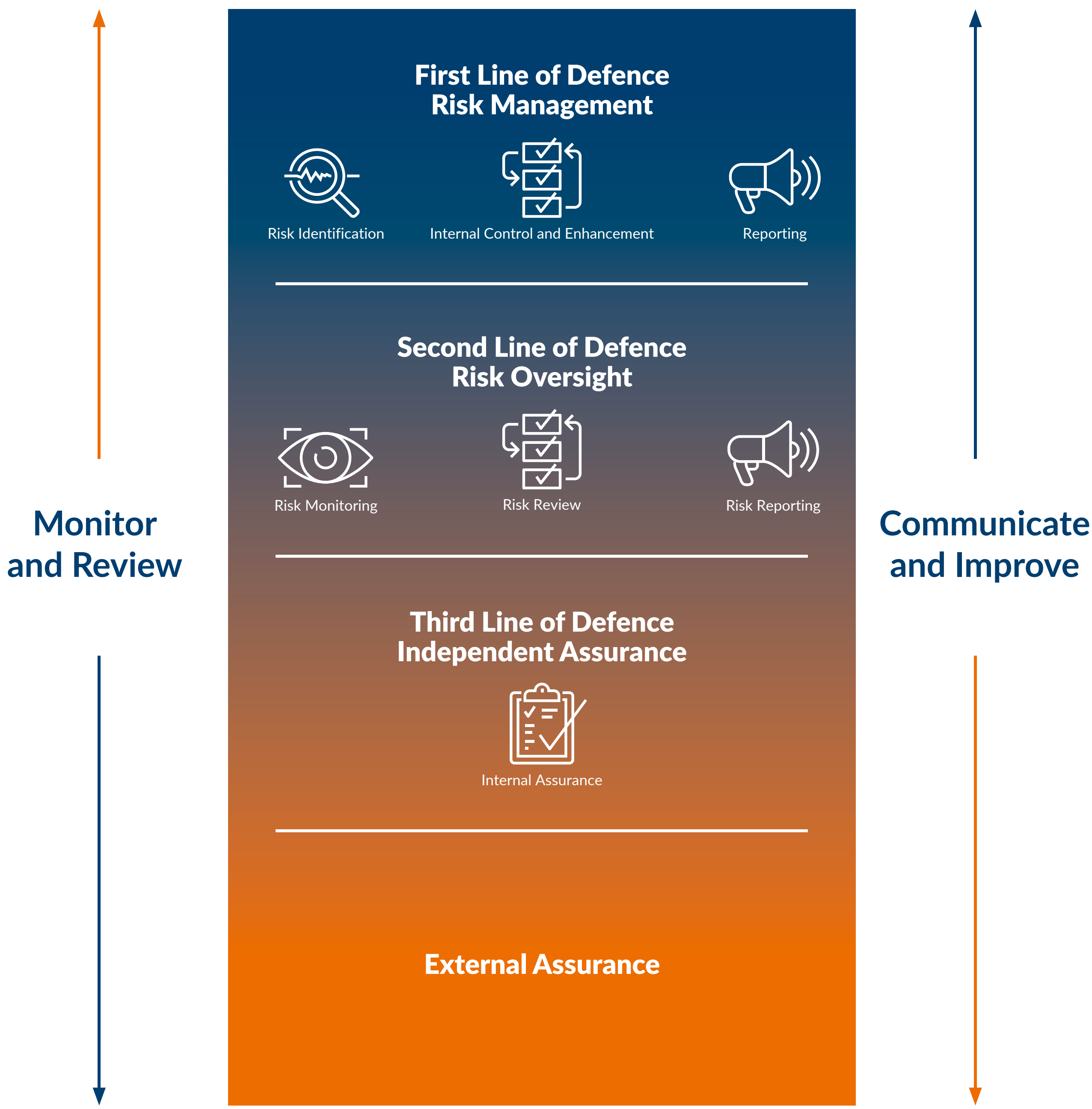
The Board is primarily responsible for performing the corporate governance functions of the Company, including the following, which are contained in the Corporate Governance Manual adopted by the Board on 6 February 2015 and updated on 31 May 2017:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring this policy and any other codes of conduct or policies applicable to Talents, Directors and officers of the Company; and
- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Risk Management and Internal Controls

Responsibility

Our risk management structure is based on the best practice model known as the "Three Lines of Defence" model. This framework and its process are designed to manage and mitigate risks rather than eliminate all risks. As such, it does not provide absolute protection against unpredictable risk or uncontrollable events such as natural catastrophes, fraud, and errors of judgement.



First Line of Defence — Risk Management

The Group's operation management include company policies, risk identification and mitigation, and internal control procedures

Leaders from different departments are responsible for performing risk assessment, risk ranking, establishing and implementing mitigating actions and reporting to the Internal Risk Management Team (the "IRM") on a yearly basis through the **Departmental Risk Register**.

Internal Control

The Group adopted an integrated framework of internal controls in consistence with the "Committee of Sponsoring Organisations of the Treadway Commission" framework (the "framework").

Under this framework, management is responsible for the design, implementation and maintenance of internal controls to ensure appropriate policies and control procedures have been designed and established to safeguard our assets against improper use or disposal; ensuring that relevant laws, rules and regulations are adhered to and complied with; and that reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements.

Departmental Operating Procedures are established for major operations. What Could Go Wrong ("WCGW") are identified and controls are established to mitigate those risks.

The Company Policy and Business Conduct regulates the behaviour of our Talents which permeate the Group's integrity and ethical values as fundamental principles.

Anti-bribery, Anti-corruption and Conflict of Interest Policy outline our expected conduct to ensure we are always in compliance with anti-corruption laws, such as the Prevention of Bribery Ordinance (Cap.201) ("the Ordinance"). This includes compliance with all laws, domestic and foreign, prohibiting improper payment, gifts or inducements of any kind to and received from any person, including officials in the private or public sector, customers and suppliers. During FY18, there were no substantiated court cases for non-compliance of the related laws and regulations.

A **Whistleblowing Policy** is in place to facilitate Talents and other stakeholders to report concerns to us about suspected unethical behavior or malpractice in confidence and without fear of reprisal, victimisation, subsequent discrimination, disadvantage or dismissal.

Improvements in FY18

We enhanced security protocols and measures via endpoint malware detection/protection, critical network isolation, restricting suspicious outbound Internet traffic via webproxy.

We set up a round-the-clock Security Operations Center to monitor against abnormal network and hacking activities.

Multi-factor authentication is now used for all remote server access and out of office email access.

We will continue to update the Cybersecurity Incident Response Plan and improve the Information Security policy to address the increased sophistication in cyber attacks.

Second Line of Defence — Risk Oversight

The 2nd line of defense is overseen by the Internal Risk Assessment Team ("IRM") whose composition comprises nominated department heads and executives including CEO, COO, CIO, CTO and CFO. The team is responsible for (i) understanding risks that are affecting the Group, and (ii) ensuring major risks are addressed with appropriate actions.

Internal Risk Management Team ("IRM") ensures appropriate actions are taken on risks affecting the Group's business and operations including ESG related issues.

The IRM team meets twice a year and from time to time when needed to review risks affecting the Group's operation.

The **Group Risk Register** is the result of a top down risk assessment from the corporate level and is complemented by a bottom up approach of separate risk registers reported by different departments.

Improvements in FY18 All customer-related credit card information is now encrypted and tokenised. Actual credit card information is not stored in our customer database.

In 2019, the IRM will focus on opportunities for improvement.

Third Line of Defence — Independent Assurance

The Group's internal audit function is performed by the Audit and Risk Department ("ARD"). It is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's internal control and risk management systems. It also assists management in assessing the risks inherent in particular business or functional areas, including fraud or corruption, and conducts reviews or audits to provide reasonable, though not absolute, assurance that adequate governance and controls are in place to address such risks. The ARD has a reporting line to the Chief Executive Officer and has direct access to the Chairman of the Audit Committee.

Internal audit reports on control effectiveness are submitted to the Audit Committee in line with the agreed audit plan. The annual audit plan is prepared based on the major risks identified during the latest risk review. This audit plan is subject to changes according to the outcome of continuous risk review processes, and any proposed changes to the audit plan will be communicated to and approved by the Audit Committee accordingly.

Going forward, the ARD will conduct internal assurance against reported ESG KPIs.

External Assurance and Consultation

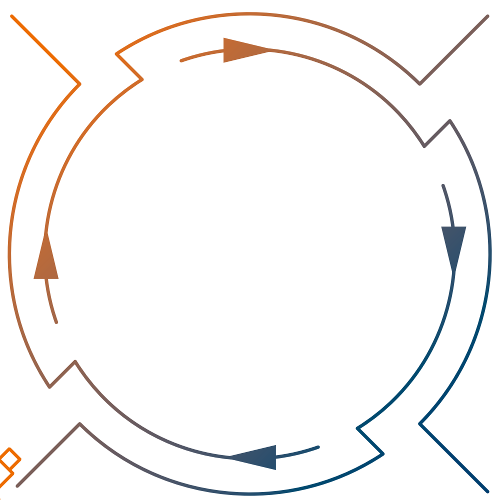
External auditor and consultants further supplement the third line of defence by providing independent assessment on the Group's processes, especially with respect to the significant risks and control issues identified over the financial reporting process.

Improvements in FY18 An external network security specialist conducted a comprehensive security review and submitted a security roadmap to improve our network security.

External consultant will perform analysis on Disaster Responded and Recovery Plan for IT and network incident.

Risk Management and Principal Risks

It is our commitment to launch service quickly and meet market demands at a fast pace to pursue long-term growth in our business. Because we embrace risk as an inherent component in our daily operation, HKBN takes an "enterprise-wide approach" for the management of key business risks. This approach provides consistent processes to identify, assess, treat, monitor and communicate key risks.



1. Risk Context Establishment and Risk Identification

Risk criteria is assessed based on our Group's objectives. Following this, we examine our strategic planning process and daily management of the business to identify internal and external events that may affect the achievement of the Group's objectives

2. Risk Evaluation

Identify the cause and source of the risks, and rank the potential impact on business and likelihood of a risk occurring both quantitatively and qualitatively

3. Risk Treatment (Mitigation and Action)

Treatment is identified and determine as to whether or not it reduces the residual risk to an acceptable level, if not, further treatments are considered until the residual risks are reduced to an acceptable level

4. Risk Monitoring and Reporting

Once an appropriate risk treatment has been determined, department heads and the IRM perform ongoing and periodic monitoring of the risks and ensure that appropriate responses, controls and preventive actions are in place

Principal Risks

The Group faces several risks and uncertainties which, if not properly managed, could create an adverse exposure for the Group. Through the effectiveness of risk management, risks are managed with appropriate mitigation measures in place to minimise the exposure. In FY18, the Group has identified the following principal risks:

Potential risks	Potential impact	Mitigating actions
Market Risk The Group operates in markets which may be subject to pricing and other competitive pressures.	The effects of competition on our business are uncertain and are dependent on a variety of factors, including economic conditions, regulatory development, technological development, the behaviour of customers and competitors, and the effectiveness of the measures we adopt in response to the competition we face.	• **Proactively monitor market conditions** • **Conduct responsive project management to allow flexible allocation of resources for strategy changes** • **Closely monitor price levels and act accordingly**
Interest Rate Risk A significant amount of indebtedness and the majority of our indebtedness bear floating interest rates determined by reference to HIBOR, which is subject to market movements and may increase in the future.	Any significant increase in interest rates could increase our finance costs and adversely affect our profitability.	• **Continue to enter into interest-rate swaps to hedge against our interest rate risks** • **Proactively monitor interest rates and act upon the changes to minimise the risks**
Operational Risk The continuity of our services is highly dependent on the proper functioning of our network and infrastructure as well as proper handling of customer data.	Any damage to or failure in our network or such infrastructure could adversely affect our business. Leakage of customer data could adversely affect the Group's reputation, operations and financial performance.	• **Ensure a sound IT and security policy is in place** • **Step up monitoring of network status** • **Continuously update our disaster recovery procedures and conduct yearly drills** • **Undertake more frequent reviews of our network security** • **Undertake periodic upgrades of our network devices** • **Provide network/IT security awareness training for all Talents** • **Continuously update our customer data collection and retention policy**

Potential risks	Potential impact	Mitigating actions
People The Group's success is dependent upon continued service from Talents employed by our Group.	The loss of key personnel, or the inability to find additional qualified personnel, could materially and adversely affect the Group's prospects and results of operations.	• **The Company has a succession planning strategy in place for key management positions**
Technological Risk The telecommunications industry is characterised by rapidly changing technology and industry standards, evolving customer demands and services with increasingly short life cycles.	If we cannot implement new technology expediently and offer new services demanded by our customers in a timely manner and at competitive prices, our business, financial conditions, operations and prospects could be adversely affected.	• **A network evolution plan is in place to enhance network agility and our ability to cope with evolving technology** • **New service is provided to customers by partnering with industry leaders**
Legal Risk The Group operates in markets and industries which require compliance with numerous regulations.	Failure to comply with such regulations may adversely affect the Group's reputation, operations and financial performance.	• **Compliance review is conducted by the ARD and recommendations are obtained from external legal advice on business activities and new initiatives where appropriate** • **Legal review of all contracts** • **Awareness training with respect to new laws and regulations are provided for all Talents**

Board Confirmation

The Board has considered and endorsed the Audit Committee's assessment of the effectiveness of risk management and controls systems in the Group. During the year ended 31 August 2018, there were no areas of concern identified which might materially affect the operational, financial reporting and compliance controls of the Group, and that the existing risk management and internal control systems remain effective and adequate.

AUDITOR'S REMUNERATION

During the year ended 31 August 2018, the remuneration paid or payable to the Company's external auditor, KPMG, is set out as follows:

	$'000
Audit services	2,975
Other services(Note)	5,135
	8,110

Note: Other service fee includes the review of the Group's interim financial report amounting to $325,000, tax advisory service amounting to $190,000 and other professional fees in connection with business combination and proposed business combination amounting to $4,620,000.

Directors' Responsibility and Auditor's Responsibility in Respect of Financial Statements

The statement of the Directors' responsibility and auditor's statement of reporting responsibilities in respect of the financial statements of the Group for the year ended 31 August 2018 are set out on pages 112 to 114 of this annual report.

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors of the Company. Having made specific enquiries with all Directors, they confirmed that they have complied with the required standard as set out in the Model Code for the year ended 31 August 2018.

Shareholders' Rights

The general meetings of the Company provide a communication channel between the shareholders and the Board. An annual general meeting of the Company is held each year at a location as may be determined by the Board. Each general meeting, other than an annual general meeting, is called an extraordinary general meeting. The Board may whenever it deems fit convene extraordinary general meetings. Any vote of the shareholders at a general meeting must be taken by poll except where the Chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted by a show of hands.

Procedures for Shareholders to Convene an Extraordinary General Meeting

An extraordinary general meeting could be convened on the written requisition of any two or more members or any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for Sending Enquiries to the Board

The enquiries must be in writing with the detailed contact information of the requisitionists and deposited with the Board or the Company Secretary at the Company's principal place of business in Hong Kong as below:

HKBN Ltd.
12th Floor, Trans Asia Centre
18 Kin Hong Street, Kwai Chung
New Territories, Hong Kong

Procedures for Shareholders to Put Forward Proposals at Shareholders' Meetings

There are no provisions in the Company's Articles or the Companies Law of the Cayman Islands for shareholders to put forward new resolutions at general meetings. Shareholders who wish to put forward a new resolution may request the Company to convene a general meeting in accordance with the procedures set out on page 108 in the paragraph under "Procedures for Shareholders to Convene an Extraordinary General Meeting". Detailed procedure for shareholders to propose a person for election as a Director is available under the Corporate Governance section of the Company's website.

Shareholder Communication Policy

The Company has adopted a Shareholder Communication Policy to set out the Company's procedures in providing shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, in order to help shareholders exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.

Information Disclosure and Investor Relations

The Board and the Company maintain an on-going dialogue with the Company's shareholders and the investment community mainly through the Company's financial reports, annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications and other corporate publications on the Company's website.

Constitutional Documents

The constitutional documents of the Company was adopted by special resolution passed on 21 February 2015 and effective on the Listing Date. There is no change on the constitutional documents of the Company during the year ended 31 August 2018.

Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HKBN LTD.

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of HKBN Ltd. ("the Company") and its subsidiaries ("the Group") set out on pages 115 to 184, which comprise the consolidated statement of financial position as at 31 August 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 August 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HKBN LTD. (continued)

(Incorporated in the Cayman Islands with limited liability)

Assessing of potential impairment of goodwill, intangible assets and property, plant and equipment ("PP&E")

Refer to notes 9, 10 and 11 to the consolidated financial statements and the accounting policies on pages 128 to 129.

The Key Audit Matter

The carrying values of the Group's goodwill, intangible assets and PP&E as at 31 August 2018, which amounted to HK$1,805 million, HK$1,455 million and HK$2,294 million, respectively, were contained in one cash-generating unit ("CGU") identified by management, the fixed telecommunications network services.

Management performs an annual impairment assessment of its goodwill and the associated intangible assets and PP&E. Management compares the carrying values of the CGU to which the goodwill, intangible assets and PP&E have been allocated against a discounted cashflow forecast to determine the amount of impairment loss which should be recognised, if any.

The preparation of discounted cashflow forecast involves the exercise of significant management judgement, particularly in estimating the long-term revenue growth rates and the discount rates applied.

We identified assessing the potential impairment of goodwill, intangible assets and PP&E as a key audit matter because the impairment assessment prepared by management is complex and contains judgemental assumptions, particularly the long-term revenue growth rate and discount rate applied, which could be subject to management bias in their selection.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill, intangible assets and PP&E included the following:

- evaluating the Group's identification of CGUs, and the value of goodwill, intangible assets and PP&E allocated to the fixed telecommunications network services CGU and assessing the methodology applied by management in the preparation of the discounted cashflow forecast with reference to the requirements of the prevailing accounting standards;

- evaluating the discounted cashflow forecast prepared by management by comparing specific data and significant assumptions in the discounted cashflow forecast with the financial budget which was approved by the Board of directors. Our evaluation has taken into account our understanding of the Group's future business plans and the telecommucation sector;

- comparing the revenue and operating costs included in prior year's discounted cashflow forecast with the current year's performance in order to assess the reasonableness of prior year's forecast and making enquires of management as to the reasons for any significant variation identified;

- comparing the long-term revenue growth rate and discount rate adopted in the discounted cashflow forecast with that of comparable companies and external market data; and

- obtaining from management sensitivity analysis of both the long-term revenue growth rate and the discount rate adopted in the discounted cashflow forecast and assessing the impact of changes in the key assumptions to the conclusions reached in the impairment assessment and whether there were any indicators of management bias.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HKBN LTD. (continued)

(Incorporated in the Cayman Islands with limited liability)

Revenue recognition:

Refer to note 2 to the consolidated financial statements and the accounting policies on pages 134 to 135.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue, which comprises primarily of income from fixed telecommunications network services, international telecommunications services, mobile services and product sales, totalled HK$3,949 million for the year ended 31 August 2018. The accuracy of revenue recorded in the consolidated financial statements is an inherent risk because the Group's billing systems are complex, and process large volumes of data including a variety of services packages with price charges in the year. Significant management judgement can be required in determining the appropriate measurement and timing of recognition of different elements of revenue within bundled sales packages, which may include telecommunication services and telecommunication products, and complex settings are required in the Group's information technology ("IT") systems to achieve the appropriate allocation of prices for the different elements of revenue. We identified revenue recognition as a key audit matter because it involves management judgement and complex IT systems both of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.	Our audit procedures to assess the recognition of revenue included the following: • with the assistance of our information technology specialists, evaluating the design, implementation and operating effectiveness of key internal controls with particular emphasis on: — the capturing and recording of data usage; — authorising rate changes; and — calculating amounts billed to customers. • assessing the design, implementation and operating effectiveness of key non-automated internal controls over the revenue recognition process; • reconciling revenue recognised in the telecom billing system to the general ledger and assessing whether the reconciling items were properly supported by underlying documentation, on a sample basis; • assessing, on a sample basis, the standalone selling prices determined by management for each distinct service and product offered in bundled sales packages, by comparison with the observable prices for such services or products when the Group sells such services or products separately in similar circumstances and to similar customers; • evaluating journal entries posted to revenue accounts, on a specific risk-based sample basis, and comparing the details of these journals entries with relevant underlying documentation, which included reports generated from the telecom billing system; and • comparing cash receipts from customers during the year and subsequent to the financial year end with invoices issued to customers during the year, on a sample basis.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HKBN LTD. (continued)

(Incorporated in the Cayman Islands with limited liability)

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HKBN LTD. (continued)

(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HKBN LTD. (continued)

(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Wai Shun, Wilson.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

1 November 2018

Consolidated Income Statement

For the year ended 31 August 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Revenue	2	**3,948,952**	3,232,310
Other net income	3(a)	**22,315**	10,644
Network costs and costs of sales		**(1,247,031)**	(710,257)
Other operating expenses	3(b)	**(2,116,987)**	(2,067,301)
Finance costs	3(d)	**(117,288)**	(210,740)
Share of profits of associates		**–**	3,418
Share of losses of joint ventures	13(b)	**(693)**	(920)
Profit before taxation	3	**489,268**	257,154
Income tax	4	**(92,371)**	(86,044)
Profit for the year attributable to equity shareholders of the Company		**396,897**	171,110
Earnings per share	7		
Basic		**39.6 Cents**	17.1 cents
Diluted		**39.6 Cents**	17.1 cents

The notes on pages 121 to 184 form part of these financial statements. Details of dividend payable to equity shareholders of the Company attributable to the profit for the year are set out in note 26(b).

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2018
(Expressed in Hong Kong dollars)

	2018 $'000	2017 $'000
Profit for the year	**396,897**	171,110
Other comprehensive income for the year		
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	**(4,718)**	2,744
Total comprehensive income for the year attributable to equity shareholders of the Company	**392,179**	173,854

The notes on pages 121 to 184 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 August 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Non-current assets			
Goodwill	9	**1,804,904**	1,771,969
Intangible assets	10	**1,454,877**	1,612,707
Property, plant and equipment	11	**2,293,950**	2,289,790
Interest in joint ventures	13	**8,095**	8,788
Other non-current assets	14	**64,950**	24,600
		5,626,776	5,707,854
Current assets			
Inventories	15	**32,704**	11,824
Trade receivables	16	**247,210**	205,167
Other receivables, deposits and prepayments	16	**292,646**	266,321
Amount due from a joint venture	20	**8,544**	9,244
Cash and cash equivalents	17	**373,293**	385,052
		954,397	877,608
Current liabilities			
Trade payables	18	**138,918**	97,658
Other payables and accrued charges — current portion	18	**461,373**	363,181
Deposits received		**69,343**	57,221
Deferred services revenue — current portion		**98,653**	81,949
Obligations under granting of rights — current portion	24	**9,024**	9,024
Amounts due to joint ventures	20	**10,000**	10,000
Contingent consideration — current portion	25	**18,597**	27,489
Tax payable	22	**109,410**	115,875
		915,318	762,397
Net current assets		**39,079**	115,211
Total assets less current liabilities		**5,665,855**	5,823,065

Consolidated Statement of Financial Position

At 31 August 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Non-current liabilities			
Other payables and accrued charges — long-term portion	18	**201,266**	293,748
Deferred services revenue — long-term portion		**79,371**	92,752
Obligations under granting of rights — long-term portion	24	**24,819**	33,843
Deferred tax liabilities	23	**408,431**	423,618
Contingent consideration — long-term portion	25	**25,697**	2,869
Provision for reinstatement costs		**15,643**	16,015
Bank loans	19	**3,873,716**	3,831,332
		4,628,943	4,694,177
NET ASSETS		**1,036,912**	1,128,888
CAPITAL AND RESERVES			
Share capital	26(c)	**101**	101
Reserves		**1,036,811**	1,128,787
TOTAL EQUITY		**1,036,912**	1,128,888

Approved and authorised for issue by the board of directors on 1 November 2018.

Chu Kwong YEUNG	)	
	)	Directors
Ni Quiaque LAI	)	

The notes on pages 121 to 184 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 August 2018
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company						
	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Other reserve $'000	Retained profits $'000	Exchange reserve $'000	Total $'000
Balance at 1 September 2016		101	528,260	13,136	596,420	232,272	(6,831)	1,363,358
Changes in equity for the year ended 31 August 2017:								
Profit for the year		–	–	–	–	171,110	–	171,110
Other comprehensive income		–	–	–	–	–	2,744	2,744
Total comprehensive income		–	–	–	–	171,110	2,744	173,854
Dividend approved in respect of the previous year	26(b)(ii)	–	(201,133)	–	–	–	–	(201,133)
Dividend declared in respect of the current year	26(b)(i)	–	(221,247)	–	–	–	–	(221,247)
Equity-settled share-based transactions	21(a)	–	–	14,056	–	–	–	14,056
Balance at 31 August 2017 and 1 September 2017		101	105,880	27,192	596,420	403,382	(4,087)	1,128,888
Changes in equity for the year ended 31 August 2018:								
Profit for the year		**-**	**-**	**-**	**-**	**396,897**	**-**	**396,897**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**(4,718)**	**(4,718)**
Total comprehensive income		**-**	**-**	**-**	**-**	**396,897**	**(4,718)**	**392,179**
Dividend approved in respect of the previous year	26(b)(ii)	**-**	**(105,880)**	**-**	**-**	**(125,423)**	**-**	**(231,303)**
Dividend declared in respect of the current year	26(b)(i)	**-**	**-**	**-**	**-**	**(261,473)**	**-**	**(261,473)**
Equity-settled share-based transactions	21(a)	**-**	**-**	**8,621**	**-**	**-**	**-**	**8,621**
Balance at 31 August 2018		**101**	**-**	**35,813**	**596,420**	**413,383**	**(8,805)**	**1,036,912**

The notes on pages 121 to 184 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 August 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Operating activities			
Cash generated from operations	17(b)	**1,192,771**	1,023,445
Tax paid:			
– Hong Kong Profits Tax paid		**(111,177)**	(118,307)
– Tax paid outside Hong Kong		**(5,057)**	(4,298)
Net cash generated from operating activities		**1,076,537**	900,840
Investing activities			
Payment for purchase of property, plant and equipment		**(433,301)**	(403,702)
Proceeds from sale of property, plant and equipment		**1,913**	48,466
Payment for contingent consideration		**(19,324)**	(17,053)
Net cash inflow in respect of disposal of interest in associate		**–**	10,780
Payment for acquisition of subsidiaries	27	**(9,501)**	–
Interest received		**1,641**	276
Net cash used in investing activities		**(458,572)**	(361,233)
Financing activities			
Proceeds from bank loans, net of transaction costs		**–**	3,820,690
Repayment of bank loans	17(c)	**(2,792)**	(3,800,000)
Decrease in amount due to an associate		**–**	(1,080)
Interest paid on interest-rate swaps	17(c)	**(6,833)**	(18,664)
Interest paid on bank loans	17(c)	**(96,743)**	(89,460)
Transaction costs for bank loans paid	17(c)	**(29,859)**	–
Dividend paid		**(492,777)**	(422,380)
Net cash used in financing activities		**(629,004)**	(510,894)
Net (decrease)/increase in cash and cash equivalents		**(11,039)**	28,713
Cash and cash equivalents at the beginning of the year	17(a)	**385,052**	354,955
Effect of foreign exchange rate changes		**(720)**	1,384
Cash and cash equivalents at the end of the year	17(a)	**373,293**	385,052

The notes on pages 121 to 184 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in account policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 August 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that contingent consideration, derivative financial instrument and cash-settled share-based payments are stated at their fair values as explained in the accounting policies set out below in notes 1(f), 1(g) and 1(r)(iv).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 34.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Change in accounting policies

The HKICPA has issued several amendment to HKFRSs that are first effective for the current account period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 17(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows; Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current account period.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates and Joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and (k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over an associate or joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Business combination and goodwill

The Group applies the acquisition method to account for business combination. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 1(k)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion
- Leasehold improvements are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives
- Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease

— Cable	5 years
— Furniture, fixtures and fittings	4–5 years
— Telecommunications, computer and office equipment	4–20 years
— Motor vehicles	4–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to profit or loss. Major improvements are capitalised and depreciated over their expected useful lives to the Group.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis or unit of production method over the assets' estimated useful lives. The major intangible assets with finite useful lives are amortised from the date of acquisition and their estimated useful lives are as follows:

— Customer relationship — FTNS business	14 years
— Customer relationship — International telecommunications services ("IDD") business	14 years
— Customer relationship — broadband wireless ("Wi-Fi") connectivity business	18 years
— Customer relationship — cloud solutions services	7 years
— Brand and trademark — "HKBN" for FTNS business	20 years
— Brand and trademark — "IDD0030" & "IDD1666" for IDD business	14 years
— Brand and trademark — "Y5Zone" for Wi-Fi business	20 years
— Brand and trademark — "ICG" for cloud solutions services	11 years

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases with the following exceptions:

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous leasee.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leased assets (continued)

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(iii) Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset by the Group and the leasing of the same asset back to the Group. The lease payments and the sale price are usually interdependent as they are negotiated as a package. Sale and leaseback arrangements that result in substantially all of the risks and rewards of ownership of assets being transferred to the lessor are accounted for as operating leases. Any excess of sales proceeds over the carrying amount is recognised in profit or loss as gain on disposal, if the sales prices and lease back arrangements for these transactions are determined based on the prevailing market prices. Payments made under operating leases are charged to profit or loss on a straight-line basis over the lease periods.

(k) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first in, first out cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(t), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Obligations under granting of rights

The obligations under granting of rights to use the Group's services on a free of charge basis as part and parcel of a business combination are recognised initially at fair value. The obligations are amortised over the period which the rights are granted, as follows:

— Rights to use of telecommunications services	10 years

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Talent benefits

(i) Short term Talent benefits

Salaries, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by Talents. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Talent benefits (continued)

(ii) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by Talents and a reliable estimate of the obligation can be made.

(iii) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to certain Talents. Contributions to the schemes by the Group are calculated as a percentage of Talents' basic salaries and charged to profit or loss. The Group's contributions are reduced by contributions forfeited by those Talents who leave the scheme prior to vesting fully in the contributions.

The assets of the scheme are held in an independently administered fund that is separated from the Group's assets.

(iv) Share-based payments

(a) Equity-settled share-based payments

The fair value of Restricted Share Units ("RSUs") granted to Talents of the Group in Hong Kong under the Co-Ownership Plan II is recognised as a Talent cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the RSUs were granted. Where the Talents have to meet vesting conditions before becoming unconditionally entitled to the RSUs, the total estimated fair value of the RSUs is spread over the vesting period, taking into account the probability that the RSUs will vest.

During the vesting period, the number of RSUs that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original Talent expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of RSUs that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the service condition. The equity amount is recognised in the capital reserve until the RSUs are vested (when it is included in the amount recognised in share premium for the shares vested).

(b) Cash-settled share-based payments

The fair value of the amount payable to Talents of the Group in the People's Republic of China (the "PRC") in respect of RSUs under the Co-Ownership Plan II, which are to be settled in cash and based on the price of the equity instruments of the Company, is recognised as a Talent cost with a corresponding increase in liabilities. Where the Talents have to meet vesting conditions before becoming unconditionally entitled to payment, the total estimated fair value of the RSUs is spread over the vesting period, taking into account the probability that the RSUs will vest. The liability is remeasured at the end of each reporting period and at settlement date. Any changes in the fair value of the liability are recognised as Talent costs in profit or loss.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Talent benefits (continued)

(iv) Share-based payments (continued)

(c) Share-based payments among group entities

In the Company's statement of financial position, the Company recognises the fair value of the RSUs granted by the Company to the subsidiaries as a capital contribution to the subsidiaries with an increase in its investments in the subsidiaries. The Company recognises the reimbursement by the subsidiaries of this capital contribution by recognising a recharge asset and a corresponding adjustment (credit) to the carrying amount of the investments in the subsidiaries.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) Financial guarantees issued (continued)

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(t)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(t)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue for the provision of international telecommunications and fixed telecommunications network service

Revenue is recognised when an arrangement exists, service is rendered, the fee is fixed or determinable, and collectability is probable. Tariff-free period granted to subscribers of fixed telecommunications network services are recognised in profit or loss rateably over the term of the service subscription agreement. Amount received in advance for the provision of fixed telecommunications network services is deferred and included under deferred services income and subsequently recognised as revenue on a straight-line basis over the related service period.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Revenue recognition (continued)

(ii) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(u) Research and development costs

Research and development costs of new services and enhancements to existing services are charged to profit or loss as incurred.

(w) Translation of foreign currencies

The Group's functional currency is Hong Kong dollars. Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill and fair value adjustments arising from acquisition, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Segment reporting

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

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

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

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

2 REVENUE

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

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

The amount of each significant category of revenue recognised during the year is as follows:

	2018	2017
	$'000	$'000
Residential revenue	**2,278,241**	1,958,286
Enterprise revenue	**1,379,183**	1,208,136
Product revenue	**291,528**	65,888
	3,948,952	3,232,310

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3 PROFIT BEFORE TAXATION

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

	2018 $'000	2017 $'000
(a) Other net income		
Interest income	**(1,641)**	(276)
Net foreign exchange loss	**105**	3,248
Amortisation of obligations under granting of rights (note 24)	**(9,024)**	(9,024)
Change in fair value of contingent consideration (note 25)	**437**	1,435
Other income	**(12,192)**	(6,027)
	(22,315)	(10,644)
(b) Other operating expenses		
Advertising and marketing expenses	**605,149**	568,896
Depreciation (note 11)	**425,258**	420,206
(Gain)/loss on disposal of property, plant and equipment, net	**(203)**	25,922
Impairment losses on trade receivables (note 16(b))	**39,693**	41,206
Talent costs (note 3(c))	**489,816**	498,848
Amortisation of intangible assets	**122,207**	121,781
Transaction costs in connection with business combination	**1,757**	–
Transaction costs in connection with proposed business combination	**18,031**	–
Others	**415,279**	390,442
	2,116,987	2,067,301
(c) Talent costs		
Salaries, wages and other benefits	**893,939**	846,791
Contributions to defined contribution retirement plan	**58,329**	55,028
Equity-settled share-based payment expenses (note 21(a))	**8,621**	14,056
Cash-settled share-based payment expenses (note 21(b))	**1,290**	527
	962,179	916,402
Less: Talent costs capitalised as property, plant and equipment	**(31,924)**	(32,703)
Talent costs included in advertising and marketing expenses	**(440,439)**	(384,851)
	489,816	498,848

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3 PROFIT BEFORE TAXATION (continued)

	2018 $'000	2017 $'000
(d) Finance costs		
Interest on bank loans	**119,711**	101,505
Interest on interest-rate swaps, net	**6,833**	18,664
Fair value (gain)/loss on interest-rate swaps	**(58,531)**	17,174
Originating fee for banking facility expired (note 19)	**49,275**	73,397
	117,288	210,740
(e) Other items		
Amortisation of intangible assets (note 10)	**172,576**	157,802
Operating lease charges in respect of land and buildings: minimum lease payments	**60,436**	45,820
Operating lease charges in respect of telecommunications facilities and computer equipment: minimum lease payments	**264,681**	247,512
Auditor's remuneration		
— audit services	**2,975**	2,912
— review services	**325**	319
— tax services	**190**	182
— other services	**4,620**	–
Research and development costs	**25,045**	21,129
Cost of inventories	**272,946**	45,402

(Expressed in Hong Kong dollars unless otherwise indicated)

4 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2018 $'000	2017 $'000
Current tax — Hong Kong Profits Tax		
Provision for the year	**104,960**	109,073
Over -provision in respect of prior years	**(29)**	(9)
Current tax — Outside Hong Kong		
Provision for the year	**5,060**	4,342
Deferred tax		
Origination and reversal of temporary differences (note 23)	**(17,620)**	(27,362)
	92,371	86,044

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

Income tax expense for the current taxation outside Hong Kong is mainly related to the income tax in the PRC. The Corporate Income Tax rate applicable to the subsidiaries located in the PRC is 25% (2017: 25%) for the year.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 $'000	2017 $'000
Profit before taxation	**489,268**	257,154
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**82,349**	43,756
Tax effect of non-deductible expenses	**28,337**	46,726
Tax effect of non-taxable income	**(2,976)**	(1,013)
Tax effect of tax losses not recognised in prior year utilised during the year	**(17,346)**	(5,614)
Tax effect of unused tax losses not recognised	**546**	606
Others	**1,461**	1,583
Actual tax expense	**92,371**	86,044

5 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018						
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments (note (i)) $'000	Total $'000
Executive directors							
Mr. Chu Kwong YEUNG	–	9,542	1,560	956	12,058	793	12,851
Mr. Ni Quiaque LAI	–	6,283	1,040	637	7,960	537	8,497
Non-executive director							
Ms. Deborah Keiko ORIDA	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Bradley Jay HORWITZ	388	–	–	–	388	–	388
Mr. Stanley CHOW	388	–	–	–	388	–	388
Mr. Yee Kwan Quinn LAW	388	–	–	–	388	–	388
	1,164	15,825	2,600	1,593	21,182	1,330	22,512

	2017						
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments (note (i)) $'000	Total $'000
Executive directors							
Mr. Chu Kwong YEUNG	–	8,900	2,168	919	11,987	1,382	13,369
Mr. Ni Quiaque LAI	–	6,023	1,481	612	8,116	935	9,051
Non-executive director							
Ms. Deborah Keiko ORIDA	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Bradley Jay HORWITZ	388	–	–	–	388	–	388
Mr. Stanley CHOW	388	–	–	–	388	–	388
Mr. Yee Kwan Quinn LAW	388	–	–	–	388	–	388
	1,164	14,923	3,649	1,531	21,267	2,317	23,584

Note:

(i) These represent the estimated value of RSUs granted to the directors under the Company's Co-Ownership Plan II. The value of these RSUs is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(r)(iv). The details of these benefits in kind, including the principal terms and number of RSUs granted, are disclosed in note 21.

During the year ended 31 August 2018, there were no amounts paid or payable by the Group to the directors or any of the highest paid individual set out in note 6 below as an inducement to join or upon joining the Group or as a compensation for loss of office (2017: Nil). There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 August 2018 (2017: Nil).

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) are directors whose emoluments are disclosed in note 5. The aggregate of the emoluments in respect of the other three (2017: three) individuals are as follows:

	2018 $'000	2017 $'000
Salaries and other emoluments	**11,118**	10,033
Discretionary bonuses	**2,503**	1,889
Share-based payments	**774**	1,251
Retirement scheme contributions	**845**	722
	15,240	13,895

The emoluments of the three (2017: three) individuals with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
$3,000,001 – $3,500,000	**–**	–
$3,500,001 – $4,000,000	**–**	1
$4,000,001 – $4,500,000	**1**	–
$4,500,001 – $5,000,000	**1**	1
$5,000,001 – $5,500,000	**–**	1
$5,500,001 – $6,000,000	**1**	–
	3	3

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $396,897,000 (2017: $171,110,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,002,116,000 ordinary shares (2017: 1,000,887,000 ordinary shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $396,897,000 (2017: $171,110,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II after adjusting for the dilutive effect of the Company's Co-Ownership Plan II, calculated as follows:

	2018 '000	2017 '000
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,002,116**	1,000,887
Effect of the Co-Ownership Plan II	**1,185**	2,029
Weighted average number of ordinary shares (diluted)	**1,003,301**	1,002,916

8 RETIREMENT BENEFIT COSTS

The Group contributes to an Occupational Retirement Scheme (the "ORSO Scheme"), a defined contribution retirement scheme, which is available to some of its Talents in Hong Kong. Under the ORSO Scheme, the Talents are required to contribute 5% of their monthly salaries, while the Group's contributions are calculated at 10% and 5% of the monthly salaries of senior Talents and other Talents respectively. The Talents are entitled to 100% of the employer's contributions after 10 years of completed service, or at a reduced scale after completion of 3 to 9 years' service. Contributions to the ORSO Scheme are reduced by contributions forfeited by those Talents who leave the ORSO Scheme prior to vesting fully in the Group's contributions.

A mandatory provident fund scheme (the "MPF Scheme") has been established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000. The existing Talents of the Group in Hong Kong could elect to join the MPF Scheme, while all new Talents joining the Group in Hong Kong from then onwards are required to join the MPF Scheme. Both the Group and the Talents are required to contribute 5% of each individual's relevant income with a maximum amount of $1,250 per month before 1 June 2014, and commenced from 1 June 2014, the maximum amount has been increased to $1,500, as a mandatory contribution. Employer's mandatory contributions are 100% vested in the Talents as soon as they are paid to the MPF Scheme. Senior Talents may also elect to join a Mutual Voluntary Plan (the "Mutual Plan") in which both the Group and senior Talents, on top of the MPF Scheme mandatory contributions, make a voluntary contribution to the extent of contributions that would have been made under the ORSO Scheme. During the year, forfeited contributions totalling $1,113,000 (2017: $2,252,000) were used to reduce the current year's level of contributions and $Nil was available at 31 August 2018 (2017: $Nil) to reduce future year's contributions.

Pursuant to the relevant regulations in the PRC, the Group contributes to a defined contribution retirement scheme organised by the local social security bureau for each Talent of the subsidiary in the PRC at the rate of 20% of a standard salary base as determined by the local social security bureau, the rate has been decreased to 14% effective from 1 January 2015. The Group has no other obligation to make payments in respect of retirement benefits of these Talents.

9 GOODWILL

	$'000
Cost:	
At 1 September 2016, 31 August 2017 and 1 September 2017	1,771,969
Acquisition of subsidiaries (note 27)	32,935
At 31 August 2018	1,804,904
Accumulated impairment losses:	
At 1 September 2016, 31 August 2017, 1 September 2017 and 31 August 2018	–
Carrying amount:	
At 31 August 2018	1,804,904
At 31 August 2017	1,771,969

(Expressed in Hong Kong dollars unless otherwise indicated)

9 GOODWILL (continued)

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") identified as follows:

	2018 $'000	2017 $'000
Fixed telecommunications network services segment	**1,804,904**	1,771,969

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows for the five-year period are estimated based on an average annual growth rate of revenue of 8% (2017: 10%) and a pre-tax discount rate of 10% (2017: 8%). Cash flows beyond the five-year period, matching with the useful lives of the assets employed, are assumed to remain constant. The estimated growth rates used are comparable to the growth rate for the industry.

The key assumption used in the value-in-use calculation is the average annual growth rate of revenue of the fixed telecommunications network services (including Wi-Fi connectivity services), which is determined based on the past performance and management's expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the fixed telecommunications network services segment. Any adverse change in the key assumptions could reduce the recoverable amount below carrying amount.

10 INTANGIBLE ASSETS

	Customer relationship				Brand and trademark					
	For FTNS business $'000	For IDD business $'000	For Wi-Fi business $'000	For cloud solutions business $'000	For FTNS business $'000	For IDD business $'000	For Wi-Fi business $'000	For cloud solutions business $'000	Other intangible assets $'000	Total $'000
Cost:										
At 1 September 2016	1,190,597	164,000	9,296	–	471,000	8,000	7,721	–	179,478	2,030,092
Additions	–	–	–	–	–	–	–	–	220,300	220,300
At 31 August 2017	1,190,597	164,000	9,296	–	471,000	8,000	7,721	–	399,778	2,250,392
Acquisition of subsidiaries (note 27)	–	–	–	6,929	–	–	–	7,817	–	14,746
At 31 August 2018	1,190,597	164,000	9,296	6,929	471,000	8,000	7,721	7,817	399,778	2,265,138
Accumulated amortisation:										
At 1 September 2016	316,911	49,784	1,892	–	100,088	2,431	1,415	–	7,362	479,883
Charge for the year	85,043	11,714	516	–	23,550	572	386	–	36,021	157,802
At 31 August 2017	401,954	61,498	2,408	–	123,638	3,003	1,801	–	43,383	637,685
At 1 September 2017	401,954	61,498	2,408	–	123,638	3,003	1,801	–	43,383	637,685
Charge for the year	85,043	11,714	516	248	23,550	572	386	178	50,369	172,576
At 31 August 2018	486,997	73,212	2,924	248	147,188	3,575	2,187	178	93,752	810,261
Net book value:										
At 31 August 2018	703,600	90,788	6,372	6,681	323,812	4,425	5,534	7,639	306,026	1,454,877
At 31 August 2017	788,643	102,502	6,888	–	347,362	4,997	5,920	–	356,395	1,612,707

The identifiable intangible assets recognised by the Group upon the business combinations completed on 30 May 2012, 4 January 2013, 31 March 2016 and 30 May 2018 include:

— Customer relationship of FTNS and IDD business
— Brand and trademark of FTNS and IDD business, including "HKBN", "IDD1666" and "IDD0030"
— Customer relationship of Wi-Fi business
— Brand and trademark of Wi-Fi business
— Customer relationship of cloud solutions business
— Brand and trademark of cloud solutions business

The fair value of the intangible assets at the dates of completion of the business combinations were appraised by independent valuers.

Other intangible assets include contractual right to receive future benefits and licences.

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT

	Cable $'000	Leasehold land and buildings $'000	Leasehold improvements $'000	Furniture, fixtures and fittings $'000	Telecommunications, computer and office equipment $'000	Motor vehicles $'000	Total $'000
Cost:							
At 1 September 2016	52,412	103,697	61,505	3,907	3,522,202	3,093	3,746,816
Exchange adjustments	–	–	196	59	384	–	639
Additions	–	–	6,525	1,242	355,302	1,177	364,246
Disposals	–	(67,549)	(1,328)	(227)	(30,673)	(703)	(100,480)
At 31 August 2017	52,412	36,148	66,898	4,981	3,847,215	3,567	4,011,221
At 1 September 2017	52,412	36,148	66,898	4,981	3,847,215	3,567	4,011,221
Exchange adjustments	–	–	(279)	(93)	(669)	–	(1,041)
Acquisition of subsidiaries (note 27)	–	–	–	22	213	–	235
Additions	37	–	14,442	735	416,026	–	431,240
Disposals	–	–	(1,779)	(17)	(30,535)	–	(32,331)
At 31 August 2018	52,449	36,148	79,282	5,628	4,232,250	3,567	4,409,324
Accumulated depreciation:							
At 1 September 2016	34,562	2,871	18,900	1,854	1,267,479	1,260	1,326,926
Exchange adjustments	–	–	117	26	248	–	391
Charge for the year	8,344	2,802	8,471	720	398,910	959	420,206
Written back on disposals	–	(2,554)	(754)	(100)	(21,981)	(703)	(26,092)
At 31 August 2017	42,906	3,119	26,734	2,500	1,644,656	1,516	1,721,431
At 1 September 2017	42,906	3,119	26,734	2,500	1,644,656	1,516	1,721,431
Exchange adjustments	–	–	(224)	(48)	(422)	–	(694)
Charge for the year	3,219	1,008	8,765	767	410,619	880	425,258
Written back on disposals	–	–	(1,779)	(16)	(28,826)	–	(30,621)
At 31 August 2018	46,125	4,127	33,496	3,203	2,026,027	2,396	2,115,374
Net book value:							
At 31 August 2018	6,324	32,021	45,786	2,425	2,206,223	1,171	2,293,950
At 31 August 2017	9,506	33,029	40,164	2,481	2,202,559	2,051	2,289,790

11 PROPERTY, PLANT AND EQUIPMENT (continued)

The analysis of net book value of leasehold land and buildings of the Group is as follows:

	2018 $'000	2017 $'000
In Hong Kong		
— short-term leases	**12,938**	12,057
— medium-term leases	**16,511**	18,336
— long-term leases	**2,572**	2,636
	32,021	33,029

At 31 August 2018 and 2017, the Group has certain agreements with third parties (the "Contract Parties") in which the Group would provide its network capacity to the Contract Parties in certain period, and in exchange, the Contract Parties would provide the Group the right to use the network capacity of the Contract Parties in the same period. The directors of the Group consider that since the arrangements involve exchange of a similar nature and value, the exchange is not recognised as a transaction which generates revenue, and accordingly, the network capacity of the Contract Parties under the agreements have not been recognised as an asset and no revenue or deferred revenue have been recognised in the financial statements of the Group.

12 INVESTMENTS IN SUBSIDIARIES

The following is a list of subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment	Particulars of issued and paid up share capital	Percentage of ownership interest held	Principal activities and place of operation
Credibility Holdings Limited	British Virgin Islands ("BVI")	US$1	100	Inactive
Guangzhou City Telecom Customer Services Co. Ltd. *	PRC#	HK$8,000,000	100	Provision of administrative support services in the PRC
Hong Kong Broadband Network Limited ("HKBN")	Hong Kong	383,049 shares	100	Provision of fixed telecommunications network services and international telecommunications services in Hong Kong and product sales
HKBN Group Limited ("HKBNGL")	BVI	US$5,294	100	Investment holding in Hong Kong
Metropolitan Light Company Limited ("MLCL")	Cayman Islands	US$1,000	100	Investment holding in Hong Kong

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Particulars of issued and paid up share capital	Percentage of ownership interest held	Principal activities and place of operation
Metropolitan Light (HK) Company Limited	Hong Kong	400,000 shares	100	Investment holding in Hong Kong
Y5Zone Limited	Hong Kong	2 shares	100	Provision of Wi-Fi connectivity in Hong Kong
Concord Ideas Ltd.	BVI	US$10	100	Investment holding in Hong Kong
HKBN Enterprise Solutions Limited	Hong Kong	10,000,000 shares	100	Provision of telecommunication services in Hong Kong
Advance Tech Developments Limited	BVI	US$1	100	Inactive
Excel Profit Management Limited	BVI	US$1	100	Inactive
Guangzhou HK Enterprises Information Technology Limited *	PRC#	US$200,000	100	Provision of system integration services in PRC
HKBN International Limited	BVI	US$1	100	License holding in Taiwan
Region Best Profits Limited	BVI	US$1	100	Inactive
Super Advance Technology Limited	BVI	US$1	100	Investment holding in Hong Kong
Crown Master Enterprises Limited	Hong Kong	1 share	100	Investment holding in Hong Kong
I Consulting Group Limited	Hong Kong	100 shares	100	Provision of cloud solutions services in Hong Kong
The I Consulting Limited	Hong Kong	1 share	100	Inactive

* The English names are translated for reference only. The official names of these entities are in Chinese.

\# Wholly owned foreign enterprise registered under PRC law.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INTEREST IN JOINT VENTURES

(a) Details of the Group's interest in the joint ventures, which are accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation/ establishment	Particulars of issued and paid up capital	Percentage of ownership interest held by a subsidiary	Principal activities and place of operation
BROADBANDgo Company Limited ("BROADBANDgo")	Limited liability company	Hong Kong	100 shares	60	Provision of broadband and Wi-Fi services in Hong Kong
TGgo Company Limited ("TGgo")	Limited liability company	Hong Kong	100 shares	40	Provision of cloud computing services in Hong Kong

BROADBANDgo and TGgo are unlisted corporate entities whose quoted market prices are not available. In the opinion of the directors, these are arrangements whereby the Group and other parties contractually agree to share control of the arrangements, and have rights to the net assets of the arrangements. Accordingly, these investments have been accounted for as joint ventures.

(b) Aggregate information of joint ventures that are not individually material:

	2018 $'000	2017 $'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**8,095**	8,788
Aggregate amounts of the Group's share of those joint ventures'		
— Loss for the year	**(693)**	(920)
— Other comprehensive income	**–**	–
— Total comprehensive income	**(693)**	(920)

(Expressed in Hong Kong dollars unless otherwise indicated)

14 OTHER NON-CURRENT ASSETS

Other non-current assets mainly comprise prepayments and deposits for purchase of property, plant and equipment. The amounts are neither past due nor impaired.

15 INVENTORIES

Inventories in the consolidated statement of financial position comprise finished goods. The amount of inventories recognised as an expense and included in profit or loss represents carrying amount of inventories sold (see note 3(e)).

16 TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 $'000	2017 $'000
Trade receivables	**272,149**	225,647
Less: Allowance for doubtful debts (note 16(b))	**(24,939)**	(20,480)
	247,210	205,167
Other receivables, deposits and prepayments	**292,646**	266,321
	539,856	471,488

The amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as expense after more than one year is $18,002,000 (2017: $19,400,000). All of the remaining other receivables, deposits and prepayments are expected to be recovered or recognised as expense within one year.

The amount of the interest-rate swap included in other receivables, deposits and prepayment is $2,073,000 (2017: Nil).

(a) Ageing analysis

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

	2018 $'000	2017 $'000
Within 30 days	**117,261**	100,751
31 to 60 days	**52,844**	40,343
61 to 90 days	**25,968**	21,984
Over 90 days	**51,137**	42,089
	247,210	205,167

The majority of the Group's trade receivables is due within 30 days from the date of billing. Subscribers with receivable that are more than 3 months overdue are requested to settle all outstanding balances before further credit is granted. Further details on the Group's credit policy are set out in note 28(a).

16 TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(k)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2018 $'000	2017 $'000
At the beginning of the year	**20,480**	12,768
Impairment losses recognised (note 3(b))	**39,693**	41,206
Uncollectible amounts written off	**(35,234)**	(33,494)
At the end of the year	**24,939**	20,480

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2018 $'000	2017 $'000
Neither past due nor impaired	**117,261**	100,751
Less than 30 days past due	**52,844**	40,343
31 to 60 days past due	**25,968**	21,984
Over 60 days past due	**51,137**	42,089
	129,949	104,416
	247,210	205,167

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience and historical payment pattern, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(Expressed in Hong Kong dollars unless otherwise indicated)

17 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2018 $'000	2017 $'000
Cash at bank and in hand	**373,293**	385,052

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2018 $'000	2017 $'000
Profit before taxation		**489,268**	257,154
Adjustments for:			
Amortisation of intangible assets	10	**172,576**	157,802
Depreciation	3(b)	**425,258**	420,206
Amortisation of obligations under granting of rights	3(a)	**(9,024)**	(9,024)
Interest income	3(a)	**(1,641)**	(276)
Finance costs	3(d)	**117,288**	210,740
(Gain)/loss on disposal of property, plant and equipment, net	3(b)	**(203)**	25,922
Loss on disposal of interest in associates		**–**	111
Change in fair value of contingent consideration	3(a)	**437**	1,435
Foreign exchange (gain)/loss		**(3,649)**	1,113
Share of losses of joint ventures	13(b)	**693**	920
Share of profits of associates		**–**	(3,418)
Equity-settled share-based payment expenses	3(c)	**8,621**	14,056
Changes in working capital:			
Decrease in other non-current assets		**6,720**	1,010
(Increase)/decrease in inventories		**(20,880)**	38,717
Increase in trade receivables		**(38,507)**	(57,103)
(Increase)/decrease in other receivables, deposits and prepayments		**(21,855)**	5,239
Decrease/(increase) in amount due from a joint venture		**700**	(8,483)
Decrease in amount due to an associate		**–**	(1,085)
Increase/(decrease) in trade payables		**37,610**	(9,892)
Increase/(decrease) in other payables and accrued charges		**15,739**	(92,572)
Increase in deposits received		**10,405**	2,767
Increase in deferred services revenue		**3,215**	68,106
Cash generated from operations		**1,192,771**	1,023,445

(Expressed in Hong Kong dollars unless otherwise indicated)

17 CASH AND CASH EQUIVALENTS (continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as financing activities.

	Interest-rate swap (included in other receivables or other payables (Notes 16 and 18) $'000	Bank loan (Note 19) $'000	Total $'000
At 1 September 2017	46,507	3,831,332	3,877,839
Changes from financing cash flows:			
Repayment of bank loans	–	(2,792)	(2,792)
Interest paid	(6,833)	(96,743)	(103,576)
Transaction costs for bank loans paid	–	(29,859)	(29,859)
Total changes from financing cash flows	39,674	3,701,938	3,741,612
Changes in fair value	(58,531)	–	(58,531)
Other changes:			
Interest expenses	6,833	119,711	126,544
Origination fee for banking facility expired	–	49,275	49,275
Acquisition of subsidiaries (note 27)	–	2,792	2,792
At 31 August 2018	(12,024)	3,873,716	3,861,692

(Expressed in Hong Kong dollars unless otherwise indicated)

18 TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

	2018 $'000	2017 $'000
Trade payables	**138,918**	97,658
Other payables and accrued charges		
– Current portion	**461,373**	363,181
– Long-term portion	**201,266**	293,748
	801,557	754,587

All trade payables, other payables and accrued charges are expected to be settled within one year, except other payables and accrued charges of $201,266,000 (2017: $293,748,000) are expected to be settled after more than one year and are classified as non-current liabilities.

The amount of the interest-rate swap included in other payable and accrued charges is $Nil (2017: $46,507,000).

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

	2018 $'000	2017 $'000
Within 30 days	**46,123**	50,179
31 to 60 days	**9,786**	16,574
61 to 90 days	**31,038**	6,433
Over 90 days	**51,971**	24,472
	138,918	97,658

In 2015, the Group entered into an interest-rate swap with an notional amount of $2,635,000,000 and with a maturity date on 23 August 2018, to hedge the floating interest rate arisen from the bank loans (see note 19).

In 2017, the Group entered into a new interest-rate swap with effective date on 31 August 2018, to hedge the floating interest rate after the maturity of the current interest-rate swap. The new interest-rate swap has a notional amount of $2,635,000,000 and with a maturity date on 29 May 2020.

Under these arrangements, the Group effectively pays a fixed rate interest on the notional amount on a quarterly basis and receives a floating rate interest at 3-month Hong Kong Inter-bank Offered Rate ("HIBOR").

These swaps are recognised initially at fair value and remeasured at the end of each reporting period. These interest-rate swaps do not qualify for hedge accounting under HKAS 39, *Financial instruments: Recognition and measurement*, and therefore, it is accounted for as held for trading and measured at fair value through profit or loss.

19 BANK LOANS

At 31 August 2017, the Group has term and revolving credit facilities agreement of $4,100,000,000 in aggregate with various international banks and drawn down a bank loan with a principal amount of $3,900,000,000 at Hong Kong Inter-bank Offered Rate plus a margin of 1.35% per annum payable quarterly.

At 25 May 2018, the Group extended the term and revolving credit facilities agreement of $4,100,000,000 with various international bank from the original expiry on 28 November 2021 to 23 May 2023 (the "New Bank Loan"). The New Bank Loan is interest-bearing at Hong Kong Interbank Offered Rate plus a margin of 1.05% per annum payable quarterly.

Upon renewal, the original term and revolving credit facilities agreement were deemed extinguished and the unamortised transaction costs of $49,275,000 were recognised as finance costs (note 3(d)) in the consolidated income statement for the year ended 31 August 2018.

The New Bank Loan is recognised initially at fair value less attributable transactions costs. Subsequent to initial recognition, the New Bank Loan is stated at amortised cost with any difference between the amount initially recognised and interest payable using the effective Interest method.

The effective interest rate of the New Bank Loan as of 31 August 2018 is 3.21% (2017: 2.58%) and the amortised cost of the New Bank Loan is $3,873,716,000 (2017: $3,831,332,000).

The New Bank Loan is unsecured and covered by a cross guarantee arrangement issued by the Company, MLCL, HKBNGL and HKBN, and repayable in full upon maturity on 25 May 2023.

20 AMOUNTS DUE FROM/TO JOINT VENTURES

The amounts due from/to joint ventures are unsecured, interest free and recoverable/repayable on demand.

(Expressed in Hong Kong dollars unless otherwise indicated)

21 SHARE-BASED TRANSACTIONS

(a) Equity-settled share-based transactions

On 21 February 2015, the Company adopted the Co-Ownership Plan II (the "Plan") and granted RSUs to directors and Talents of the Group in Hong Kong. The purpose of the Plan is to attract, retain and motivate skilled and experienced Talents of the Group. The RSUs are the contingent rights to receive the Company's shares at the relevant matching ratio in respect of any shares purchased by the Talents, subject to certain terms, conditions and undertakings. The shares are held on trust by the appointed trustee until their release to the beneficiaries upon the vesting of the RSUs.

On 29 June 2015 and 18 August 2015, 2,723,000 RSUs and 133,000 RSUs were granted to directors and Talents of the Group in Hong Kong by the Company under the Plan respectively. The directors estimated the weighted average fair value of each RSU at the grant dates to be $8.50.

On 20 November 2015, 158,000 RSUs were granted to Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU at the grant date to be $10.28.

On 20 June 2016, 2,082,000 RSUs were granted to directors and Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU at the grant date to be $8.10.

On 24 January 2017, 258,000 RSUs were granted to Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU at the grant date to be $8.35.

On 20 July 2017, 253,000 RSUs were granted to Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU at grant date to be $7.20.

Equity-settled share-based payment expenses of $8,621,000 (2017: $14,056,000) were recognised as Talent costs in the consolidated income statement (note 3(c)) for the year ended 31 August 2018 and the remaining expenses related to the RSUs are to be recognised in the years ending 31 August 2019, 2020 and 2021 based on the respective vesting periods.

21 SHARE-BASED TRANSACTIONS (continued)

(a) Equity-settled share-based transactions (continued)

(i) The major terms and conditions of the grants are as follows:

	Number of instruments '000	Vesting conditions
RSUs granted to directors:		
— on 29 June 2015	397	notes (i) and (vii)
— on 20 June 2016	329	notes (iv) and (vii)
RSUs granted to Talents:		
— on 29 June 2015	2,326	notes (i) and (vii)
— on 18 August 2015	133	notes (ii) and (vii)
— on 20 November 2015	158	notes (iii) and (vii)
— on 20 June 2016	1,753	notes (iv) and (vii)
— on 24 January 2017	258	notes (v) and (vii)
— on 20 July 2017	253	notes (vi) and (vii)
Total RSUs granted	5,607	

Notes:

(i) The RSUs granted have a vesting period of three years as follows:
- 25% of RSUs shall vest on 29 June 2016;
- 25% of RSUs shall vest on 29 June 2017; and
- 50% of RSUs shall vest on 29 June 2018.

(ii) The RSUs granted have a vesting period of three years as follows:
- 25% of RSUs shall vest on 18 August 2016;
- 25% of RSUs shall vest on 18 August 2017; and
- 50% of RSUs shall vest on 18 August 2018.

(iii) The RSUs granted have a vesting period of three years as follows:
- 25% of RSUs shall vest on 20 November 2016;
- 25% of RSUs shall vest on 20 November 2017; and
- 50% of RSUs shall vest on 20 November 2018.

(iv) The RSUs granted have a vesting period of three years as follows:
- 25% of RSUs shall vest on 20 June 2017;
- 25% of RSUs shall vest on 20 June 2018; and
- 50% of RSUs shall vest on 20 June 2019.

(v) The RSUs granted have a vesting period of three years as follows:
- 25% of RSUs shall vest on 24 January 2018;
- 25% of RSUs shall vest on 24 January 2019; and
- 50% of RSUs shall vest on 24 January 2020.

(vi) The RSUs granted have a vesting period of three years as follows:
- 25% of RSUs shall vest on 20 July 2018;
- 25% of RSUs shall vest on 20 July 2019; and
- 50% of RSUs shall vest on 20 July 2020.

(vii) Directors and Talents who leave the Group prior to full vesting would forfeit their right to any unvested RSUs.

(Expressed in Hong Kong dollars unless otherwise indicated)

21 SHARE-BASED TRANSACTIONS (continued)

(a) Equity-settled share-based transactions (continued)

(ii) The movement of the RSUs is as follows:

	Number of RSUs 2018 '000	2017 '000
Outstanding at the beginning of the year	**3,136**	4,130
Granted during the year	**–**	511
Vested during the year	**(1,751)**	(1,100)
Forfeited during the year	**(185)**	(405)
Outstanding at the end of the year	**1,200**	3,136

(iii) Fair value of RSUs and assumptions

The fair value of services received in return for RSUs granted is measured by reference to the fair value of RSUs granted. The estimate of the fair value of the RSUs granted is measured based on a binomial lattice model.

The expected dividends during the vesting period have been taken into account when measuring the fair value of the RSUs. The dividends paid from the Company's ordinary shares underlying the RSUs would be accrued and paid to the RSUs plan participants upon vested.

RSUs were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the RSUs granted.

21 SHARE-BASED TRANSACTIONS (continued)

(b) Cash-settled share-based transaction

On 18 August 2015, 141,000 RSUs were granted to Talents of the Group in the PRC which are to be settled in cash. The directors estimated the weighted average fair value of each RSU at 31 August 2018 to be $11.66 (2017: $7.18). The amount was fully settled on 5 September 2018.

On 24 January 2017, 142,000 RSUs were granted to Talents of the Group in the PRC which are to be settled in cash. The directors estimated the weighted average fair value of each RSU at 31 August 2018 to be $8.48 (2017: $6.97).

The amount payable to the Talents in respect of those RSUs is accounted for under cash-settled share-based payment in accordance with the accounting policy set out in note 1(r)(iv)(b).

Cash-settled share-based payment expenses of $1,290,000 (2017: $527,000) were recognised as Talent costs in the consolidated income statement (note 3(c)) for the year ended 31 August 2018 and the remaining expenses related to the RSUs are to be recognised in the years ending 31 August 2019 and 2020 based on the respective vesting periods.

The liability is remeasured at the end of each reporting period and at settlement date. Any changes in the fair value of the liability are recognised as Talent costs in profit or loss.

22 CURRENT TAXATION IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current taxation in the consolidated statement of financial position represents:

	2018 $'000	2017 $'000
Provision for Hong Kong Profits Tax for the year	**104,960**	109,073
Balance of Profits Tax provision relating to prior years	**2,632**	4,987
	107,592	114,060
Provision for tax outside Hong Kong	**1,818**	1,815
	109,410	115,875

(Expressed in Hong Kong dollars unless otherwise indicated)

23 DEFERRED TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Deferred tax liabilities and assets recognised:

The components of deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation $'000	Amortisation of intangible assets $'000	Amortisation of obligations under granting of rights $'000	Others $'000	Total $'000
Deferred tax arising from:					
At 1 September 2016	(233,325)	(227,385)	8,562	1,168	(450,980)
Credited/(charged) to profit or loss	8,420	20,094	(1,489)	337	27,362
At 31 August 2017	(224,905)	(207,291)	7,073	1,505	(423,618)
At 1 September 2017	**(224,905)**	**(207,291)**	**7,073**	**1,505**	**(423,618)**
Acquisition of subsidiaries (note 27)	**–**	**(2,433)**	**–**	**–**	**(2,433)**
Credited/(charged) to profit or loss	**394**	**20,164**	**(1,489)**	**(1,449)**	**17,620**
At 31 August 2018	**(224,511)**	**(189,560)**	**5,584**	**56**	**(408,431)**

(b) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), the Group had not recognised deferred tax assets in respect of cumulative tax losses of $2,808,203,000 (2017: $2,909,987,000) as it was not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses did not expire under current tax legislation.

(c) Deferred tax liabilities not recognised

At 31 August 2018, temporary differences relating to the undistributed profits of the Group's PRC subsidiaries amounted to RMB105,527,000 (equivalent to $120,914,000) (2017: RMB93,394,000 (equivalent to $110,746,000)). Deferred tax liabilities amounted to 10% (or 5% if tax treaty is available) of the undistributed profits have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of the subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

24 OBLIGATIONS UNDER GRANTING OF RIGHTS

	2018 $'000	2017 $'000
At the beginning of the year	**42,867**	51,891
Amortisation for the year (note 3(a))	**(9,024)**	(9,024)
At the end of the year	**33,843**	42,867
Less: Current portion	**(9,024)**	(9,024)
Non-current portion	**24,819**	33,843

As part and parcel of the business combination on 30 May 2012, the Group granted Hong Kong Television Network Limited ("HKTV") the telecommunication business rights to use of certain telecommunication services from the Group for a term of 10 years from 30 May 2012 to 30 May 2022. The Group recognised the obligations in connection with the granting of such rights at fair value at the date of business combination. The amortisation of the obligations is charged to profit or loss on a straight-line basis over 10 years.

25 CONTINGENT CONSIDERATION

On 31 March 2016, the Group acquired the entire issued share capital of Concord Ideas Ltd. and Simple Click Investments Limited and the contingent consideration in respect of the acquisition of Concord Ideas Ltd. and Simple Click Investments Limited was measured at fair value at acquisition date ("Concord Acquisition"). The fair value of the contingent consideration was determined by the discounted cash flow valuation method. The expected payment was determined by considering the forecast amount of cash rebates to New World Telephone Holdings Limited for services provided by the Group to New World Development Company Limited and Chow Tai Fook Enterprises Limited and their subsidiaries and related parties based on 50% of settled invoices up to $50,000,000 in aggregate.

On 30 May 2018, the Group acquired the entire issued share capital of I Consulting Group Limited and its' subsidiary ("ICG Acquisition") and the contingent consideration in respect of the acquisition of ICG was measured at fair value at acquisition date and was account for as part of the consideration transferred in the business combination as set out in note 27. The fair value of the contingent consideration was determined by the discounted cash flow valuation method. The expected payment was determined by considering the adjusted fund flow of ICG for the period from 31 May 2018 to 31 March 2023 up to $200,000,000 in aggregate. The directors estimated the fair value of the contingent consideration as at 31 August 2018 to be $32,823,000.

The contingent consideration payable is classified as a financial liability and its fair value is re-measured at the end of each reporting period. Any changes in fair value are recognised in profit or loss. The contingent consideration payable within one year and over one year from 31 August 2018 amounted to $18,597,000 (2017: $27,489,000) and $25,697,000 (2017: $2,869,000) respectively. During the year, change in fair value of $437,000 (2017: $1,435,000) was recognised in profit or loss during the year ended 31 August 2018.

The fair value as at 31 August 2018 is determined considering the expected payment and discounted to present value using the corresponding discount rate of the consideration of Concord Acquisition and ICG Acquisition of 3.6% (2017: 2.7%) and 15.9% respectively.

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Retained profits $'000	Total $'000
Balance at 31 August 2016 and 1 September 2016		101	528,260	13,136	572,521	1,114,018
Changes in equity for the year ended 31 August 2017:						
Profit and total comprehensive income for the year		–	–	–	420,982	420,982
Dividend approved in respect of the previous year	26(b)(ii)	–	(201,133)	–	–	(201,133)
Dividend declared in respect of the current year	26(b)(i)	–	(221,247)	–	–	(221,247)
Equity-settled share-based transactions	21(a)	–	–	14,056	–	14,056
Balance at 31 August 2017 and 1 September 2017		101	105,880	27,192	993,503	1,126,676
Changes in equity for the year ended 31 August 2018:						
Profit and total comprehensive income for the year		**–**	**–**	**–**	**490,884**	**490,884**
Dividend approved in respect of the previous year	26(b)(ii)	**–**	**(105,880)**	**–**	**(125,423)**	**(231,303)**
Dividend declared in respect of the current year	26(b)(i)	**–**	**–**	**–**	**(261,473)**	**(261,473)**
Equity-settled share-based transactions	21(a)	**–**	**–**	**8,621**	**–**	**8,621**
Balance at 31 August 2018		**101**	**–**	**35,813**	**1,097,491**	**1,133,405**

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

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

	2018 $'000	2017 $'000
Interim dividend declared and paid of 26 cents per ordinary share (2017: 22 cents per ordinary share)	**261,473**	221,247
Final dividend proposed after the end of the reporting period of 30 cents per ordinary share (2017: 23 cents per ordinary share)	**301,700**	231,303
	563,173	452,550

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

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

	2018 $'000	2017 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 23 cents per ordinary share (2017: 20 cents per ordinary share)	**231,303**	201,133

(c) Share capital

	No. of shares	$'000
Authorised:		
At 1 September 2016, 31 August 2017, 1 September 2017 and 31 August 2018	3,800,000,000	380
Ordinary shares, issued and fully paid:		
At 1 September 2016, 31 August 2017, 1 September 2017 and 31 August 2018	1,005,666,666	101

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34(2) of the Companies Law (2018 Revision) of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(ii) Capital reserve

The capital reserve represents the portion of the grant date fair value of RSUs granted to the directors and talents of the Group in Hong Kong that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(r)(iv)(a).

(iii) Other reserve

As part of the Group reorganisation, the entire issued share capital of MLCL was transferred to the Company in consideration for an issue of the Company share ("Share Transfer"). Upon completion of the Share Transfer, the excess amount between the consideration and share capital and share premium of MLCL was recorded in the other reserve.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a gearing ratio. For this purpose, gearing ratio is calculated as gross debt divided by total equity. Gross debt comprises the principal amount of outstanding borrowing. Total equity is total equity attributable to equity shareholders of the Company, as shown in the consolidated statement of financial position.

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Capital management (continued)

The gearing ratio at 31 August 2018 and 2017 was as follows:

	Note	2018 $'000	2017 $'000
Bank loans (principal amount)	19	**3,900,000**	3,900,000
Gross debt		**3,900,000**	3,900,000
Total equity		**1,036,912**	1,128,888
Gearing ratio		**376%**	345%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27 BUSINESS COMBINATION

On 30 May 2018, a subsidiary of the Company acquired the entire shares of I Consulting Group Limited and its' subsidiary ("ICG"). ICG primarily engages in the provision of cloud solutions services in Hong Kong.

The total consideration for acquiring entire equity interest in ICG, amounting to $42,823,000, comprised of cash and contingent consideration related to the adjusted fund flow of ICG for the period from 31 May 2018 to 31 March 2023.

(Expressed in Hong Kong dollars unless otherwise indicated)

27 BUSINESS COMBINATION (continued)

The provisional fair values of these assets and liabilities of ICG recognised at the acquisition date are as follow:

	$'000
Intangible assets (note 10)	14,746
Property, plant and equipment (note 11)	235
Trade receivables	3,536
Other receivables, deposits and prepayments	2,173
Tax recoverable	222
Cash and cash equivalents	499
Trade payables	(3,649)
Other payables, accrued charges, deposits received and deferred services revenue	(2,649)
Bank loans	(2,792)
Deferred tax liabilities (note 23)	(2,433)
Fair value of net assets acquired	9,888
Goodwill (note 9)	32,935
Total consideration	42,823
Cash consideration	10,000
Contingent consideration (note 25)	32,823
Total consideration	42,823
Cash consideration paid	10,000
Cash and cash equivalents acquired	(499)
Net cash outflow in respect of the acquisition during the year ended 31 August 2018	(9,501)

The revenue and loss after taxation of $10,518,000 and $3,229,000 respectively included in the consolidated financial statements were contributed by ICG from the date of acquisition to 31 August 2018.

No separate sets of financial information for ICG was prepared for the period from 1 September 2017 to the date of the acquisition. As a result, it is impracticable for the Group to disclose the amount of revenue and profit after taxation of ICG as if the acquisition date for the business combination that occurred during the year had been as of 1 September 2017.

The goodwill is attributable mainly to the skills and technical talent of ICG's work force and the synergies expected to be achieved from integrating ICG into the Group's existing telecommunication business. None of the goodwill recognised is expected to be deductible for tax purpose.

The fair value of the identifiable assets and liabilities arising from the acquisition of ICG as at 30 May 2018 and the related consideration are currently determined provisionally as at 31 August 2018. At the date of these annual financial statements, the necessary valuations and other calculations for the net assets acquired and liabilities assumed have not been finalised and therefore have been provisionally determined based on the latest information available to the management. Any adjustments to these provisional values upon finalisation will be recognised within 12 months of the acquisition date. The adjustments will be calculated as if the fair values had been recognised on the acquisition date. Goodwill will also be adjusted to the amount that would have been recognised if the fair value had been used at the acquisition date.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay. These receivables are due within 30 days from the date of billing. Subscribers with receivables that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. As such, management does not expect any significant losses of trade receivables that have not been provided for by way of allowances as disclosed in note 16.

Except for the financial guarantee given by the Group as disclosed in note 30, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 30.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

(b) Liquidity risk

The Group has a cash management policy, which includes the short term investment of cash surpluses and the raising of loans and other borrowings to cover expected cash demands. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group is required to pay.

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

	2018 Contractual undiscounted cash outflow			
	Within 1 year or on demand $'000	**More than 1 year $'000**	**Total $'000**	**Carrying amount at 31 August $'000**
Trade payables	**138,918**	**–**	**138,918**	**138,918**
Other payables and accrued charges	**461,373**	**201,266**	**662,639**	**662,639**
Deposits received	**69,343**	**–**	**69,343**	**69,343**
Amounts due to joint ventures	**10,000**	**–**	**10,000**	**10,000**
Contingent consideration	**18,597**	**25,697**	**44,294**	**44,294**
Bank loans	**117,307**	**4,338,052**	**4,455,359**	**3,873,716**
	815,538	**4,565,015**	**5,380,553**	**4,798,910**

	2017 Contractual undiscounted cash outflow			
	Within 1 year or on demand $'000	More than 1 year $'000	Total $'000	Carrying amount at 31 August $'000
Trade payables	97,658	–	97,658	97,658
Other payables and accrued charges	363,181	294,572	657,753	656,929
Deposits received	57,221	–	57,221	57,221
Amounts due to joint ventures	10,000	–	10,000	10,000
Contingent consideration	27,489	3,435	30,924	30,358
Bank loans	82,396	4,167,504	4,249,900	3,831,332
	637,945	4,465,511	5,103,456	4,683,498

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans and interest-rate swaps. Financial instruments with variable interest rates expose the Group to cash flow interest rate risk. The Group's interest-bearing financial instruments are set out in (ii) below. The interest rates and terms of repayment of interest-bearing borrowings of the Group are disclosed in note 19 to the financial statements.

(i) Hedging

Interest-rate swaps, denominated in Hong Kong dollars ("HKD"), have been entered into achieve an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. At 31 August 2018, the Group had interest-rate swaps with a notional contract amount of $2,635,000,000 (2017: $2,635,000,000) which were not designated as cash flow hedging instrument. The net fair value of swaps entered into by the Group at 31 August 2018 was $12,024,000 (2017: Liability of $46,507,000). The amount is recognised as derivative financial instrument and included in other receivables, deposits and prepayment (note 16).

(ii) Interest-bearing financial instruments

The following table details the interest-bearing financial instruments of the Group at the end of the reporting period.

	2018 **$'000**	2017 $'000
Variable rate instruments		
Bank loans	**3,873,716**	3,831,332
Derivative financial instrument — interest-rate swaps	**(12,024)**	46,507

(iii) Sensitivity analysis

At 31 August 2018, it is estimated that a general increase/decrease of 50 basis points (2017: 50 basis points) in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax, increased/decreased retained profits and decreased/increased accumulated losses by approximately $6,411,000 (2017: $6,059,000). Other components of consolidated equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits/accumulated losses that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax and retained profits/accumulated losses is estimated as an annualised impact on interest expenses of such a change in interest rate.

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk

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

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

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using the spot rate at the year end date.

	2018		2017	
	USD	**RMB**	USD	RMB
	$'000	**$'000**	$'000	$'000
Cash and cash equivalents	**57,988**	**1,161**	23,112	1,325
Trade receivables	**49,480**	**–**	6,611	–
Trade payables	**(59,850)**	**(274)**	(99,519)	–
Other payables and accrued charges	**(19,941)**	**(105,136)**	(23,343)	(111,986)
Net exposure arising from recognised assets and liabilities	**27,677**	**(104,249)**	(93,139)	(110,661)

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The Group's foreign currency risk is mainly concentrated on the fluctuation of the RMB against the HKD. It is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies. The following table details the Group's sensitivity to a 10% increase or decrease in the HKD against the RMB. The sensitivity analysis includes only outstanding foreign currency denominated monetary items including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower, and adjusts their translation at the year end for a 10% change in foreign currency rates. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency.

	2018			2017		
	Increase/ (decrease) in foreign exchange rates	**Impact on profit after tax $'000**	**Impact on retained profits $'000**	Increase/ (decrease) in foreign exchange rates	Impact on profit after tax $'000	Impact on retained profits $'000
RMB	**10%**	**(8,709)**	**(8,709)**	10%	(9,218)	(9,218)
	(10%)	**8,709**	**8,709**	(10%)	9,218	9,218

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2017.

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair values measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair values measured using significant unobservable inputs

	Fair value at 31 August 2018	**Fair value measurements as at 31 August 2018 categorised into**		
		Level 1	**Level 2**	**Level 3**
	$'000	**$'000**	**$'000**	**$'000**
Recurring fair value measurement				
Financial assets:				
Derivative financial instrument				
— Interest-rate swap	**12,024**	**–**	**12,024**	**–**
Financial liabilities:				
Contingent consideration	**44,294**	**–**	**–**	**44,294**

	Fair value at 31 August 2017	Fair value measurements as at 31 August 2017 categorised into		
		Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instrument:				
— Interest-rate swaps	46,507	–	46,507	–
Contingent consideration	30,358	–	–	30,358

During the year ended 31 August 2017 and 31 August 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Valuation techniques and inputs used in Level 2 fair value measurement

The fair value of interest-rate swap is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparty.

Information about Level 3 fair value measurement

The fair value of the contingent consideration relating to the Concord acquisition and ICG acquisition are determined considering the expected payment, discounted to present value using a risk-adjusted discount rate of 3.6% (2017: 2.7%) and 15.9% respectively.

The movement during the year in the balance of Level 3 fair value measurement is as follows:

	2018	2017
	$'000	$'000
Contingent consideration		
At the beginning of the year	**30,358**	45,976
Acquisition of subsidiaries (note 27)	**32,823**	–
Settlement of contingent consideration for the year	**(19,324)**	(17,053)
Change in fair value during the year	**437**	1,435
At the end of the year	**44,294**	30,358
Contingent consideration — current portion	**18,597**	27,489
Contingent consideration — long-term portion	**25,697**	2,869
Total contingent consideration	**44,294**	30,358

(ii) Financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 August 2018 and 2017.

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(f) Offsetting financial assets and financial liabilities

The Group enters into netting arrangements with its carriers. The outstanding transactions with these counterparties are settled on a net basis and result in offsetting the assets and liabilities in the statement of financial position.

	2018		
	Gross amounts of recognised financial assets/(liabilities) $'000	Gross amounts of recognised financial assets/ (liabilities) offset in the consolidated statement of financial position $'000	Net amounts of financial assets/ (liabilities) presented in the consolidated statement of financial position $'000
Trade receivables	**562,017**	**(314,807)**	**247,210**
Trade payables	**(453,725)**	**314,807**	**(138,918)**

	2017		
	Gross amounts of recognised financial assets/(liabilities) $'000	Gross amounts of recognised financial assets/ (liabilities) offset in the consolidated statement of financial position $'000	Net amounts of financial assets/ (liabilities) presented in the consolidated statement of financial position $'000
Trade receivables	472,835	(267,668)	205,167
Trade payables	(365,326)	267,668	(97,658)

(Expressed in Hong Kong dollars unless otherwise indicated)

29 COMMITMENTS

(a) Capital commitments

At 31 August 2018, the Group had the following capital commitments:

	2018 $'000	2017 $'000
Contracted but not provided for		
— Purchase of property, plant and equipment	**326,270**	163,402
— For an acquisition	**296,390**	–
	622,660	163,402

(b) Commitment under operating leases

(i) At 31 August 2018, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2018 $'000	2017 $'000
Leases in respect of telecommunications facilities which are receivable:		
Within 1 year	**72,642**	74,534
After 1 year but within 5 years	**103,607**	100,757
After 5 years	**73,707**	75,512
	249,956	250,803

(ii) At 31 August 2018, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 $'000	2017 $'000
Leases in respect of land and buildings which are payable:		
Within 1 year	**52,054**	52,118
After 1 year but within 5 years	**62,281**	99,192
	114,335	151,310
Leases in respect of telecommunications facilities and computer equipment which are payable:		
Within 1 year	**97,987**	118,003
After 1 year but within 5 years	**6,629**	21,712
	104,616	139,715

The Group leases a number of land and buildings and telecommunications facilities and computer equipment under operating lease. The leases typically run for an initial period of six months to fifteen years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of these leases include contingent rentals.

(Expressed in Hong Kong dollars unless otherwise indicated)

30 CONTINGENT LIABILITIES

	2018 $'000	2017 $'000
Bank guarantees	**7,105**	3,622

At 31 August 2018, the directors did not consider it is probable that a claim will be made against the Group under any guarantees. The Group has not recognised any deferred income in respect of the guarantees issued as their fair value cannot be reliably measured and their transaction price was $Nil during the year (2017: $Nil).

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

31 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in note 5 and certain of the highest paid employees as disclosed in note 6, as follows:

	2018 $'000	2017 $'000
Short-term employee benefits	**32,532**	32,253
Post-employment benefits	**2,631**	2,486
Equity compensation benefits	**2,124**	2,699
	37,287	37,438

Total remuneration is included in “Talent costs” (see note 3(c)).

(b) In connection with the acquisition of the telecommunication business by MLCL from HKTV, completed on 30 May 2012, the Group granted indefeasible rights of use in favour of HKTV allowing it to use certain capacity of the Group’s network for a term of 20 years from 30 May 2012, on a free of charge basis. In addition, the Group agreed to provide certain telecommunication services to HKTV, at no additional cost, for a period of 10 years from 30 May 2012. The incremental costs associated with fulfilling the obligations under the granting of indefeasible rights of use to HKTV are expected to be insignificant to the Group. Accordingly, no provision was made by the Group in this connection.

(Expressed in Hong Kong dollars unless otherwise indicated)

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 $'000	2017 $'000
Non-current assets			
Investments in subsidiaries		**1,163,205**	1,161,914
Other non-current assets		**348**	579
		1,163,553	1,162,493
Current assets			
Other receivables, deposits and prepayments		**539**	485
Amounts due from subsidiaries		**6,504**	12,091
Cash and cash equivalents		**199**	12,059
		7,242	24,635
Current liabilities			
Other payables and accrued charges		**2,922**	1,605
Amounts due to subsidiaries		**34,468**	58,847
		37,390	60,452
Net current liabilities		**(30,148)**	(35,817)
NET ASSETS		**1,133,405**	1,126,676
CAPITAL AND RESERVES	26(a)		
Share capital		**101**	101
Reserves		**1,133,304**	1,126,575
TOTAL EQUITY		**1,133,405**	1,126,676

Approved and authorised for issue by the board of directors on 1 November 2018.

	)	
Chu Kwong YEUNG	)	
	)	Directors
Ni Quiaque LAI	)	
	)	

(Expressed in Hong Kong dollars unless otherwise indicated)

33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 7 August 2018, MLCL (a wholly owned subsidiary of the Company), TPG Wireman and Twin Holding entered into the Merger Agreement, pursuant to which, MLCL has conditionally agreed to purchase, and TPG Wireman and Twin Holding have conditionally agreed to sell, the entire issued share capital in WTT Holding Corp. at the consideration of $5,489,756,860, of which (i) $3,548,819,204 will be satisfied by allotment and issuance of the Company's shares; and (ii) $1,940,937,656 will be satisfied by issuance of the Vendor Loan Notes. The proposed transaction was not yet completed on the date of this report and no adjustments have been made to this annual report as a result of the above event.

On 17 August 2018, HKBNGL (a wholly owned subsidiary of the Company), entered in binding Memorandum of Understanding with the HKTV, pursuant to which HKBNGL would acquire, and HKTV would sell or procure the sale of, the entire issued share capital of Cosmo True Limited (a wholly owned subsidiary of HKTV) at the cash consideration of $329,218,608.55. The acquisition was completed on 26 September 2018. No adjustments have been made to this annual financial report as a result of the above event.

On 10 October 2018, HKBN (a wholly owned subsidiary of the Company), entered into a facility agreement with Hang Seng Bank Limited for a five-year term loan of $580,000,000 that bears interest at Hong Kong Interbank Offered Rate plus a margin per annum (the "Facility"). The facility was fully utilised on 11 October 2018 and is repayable in full upon termination on 9 October 2023.

34 ACCOUNTING JUDGEMENT AND ESTIMATES

Sources of estimation uncertainty

Note 28 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment loss for doubtful debts

The Group maintains impairment loss for doubtful debts based upon evaluation of the recoverability of the trade and other receivables which takes into account the historical write-off experience and recovery rates. If the financial condition of the customers were to deteriorate, additional impairment may be required.

(b) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

34 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Sources of estimation uncertainty (continued)

(c) Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group has significant property, plant and equipment and intangible assets (other than goodwill). The Group is required to estimate the useful lives of property, plant and equipment and intangible assets (other than goodwill) in order to ascertain the amount of depreciation and amortisation charges for each reporting period.

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

(d) Fair value of assets acquired and liabilities assumed upon acquisition

In connection with acquisition of subsidiaries, the assets acquired and liabilities assumed were adjusted to their estimated fair values on the date of acquisition. The determination of the values of assets acquired and liabilities assumed involves management's judgements and assumptions. The values of assets acquired and liabilities assumed were based on valuation report from independent professional qualified valuer. Such valuations were based on certain assumptions, which were subject to uncertainty and might materially differ from the actual results. Any change in such judgements and assumptions would affect the fair value of assets acquired and liabilities assumed.

(e) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy set out in note 1(k)(ii).

The recoverable amount of an asset or a cash-generating unit has been determined based on its value-in-use. These calculations require the use of estimates. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected operating margin, growth rates and selection of discount rates, to reflect the risks-involved and the earnings multiple that can be realised for the estimated terminal value.

Management prepared the financial budgets reflecting actual performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the result of the impairment reviews.

(f) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation and practices.

(Expressed in Hong Kong dollars unless otherwise indicated)

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 AUGUST 2018

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 August 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 9, *Financial instruments*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK (IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 28 February 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 AUGUST 2018 (continued)

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 September 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

The Group has assessed that its financial assets currently measured at amortised cost will continue with this classification and measurement upon the adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, it is not likely to have significant impact if the Group were to adopt the new impairment requirement at 31 August 2018.

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

(Expressed in Hong Kong dollars unless otherwise indicated)

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 AUGUST 2018 (continued)

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Base on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 1(v). Currently, revenue arising from the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies three situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognise residential, enterprise and product revenue.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 AUGUST 2018 (continued)

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

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Deferred payments are not common in the Group's arrangements with Its customers, with the exception of when the Group offers preferential packages to the customers which include the bundle sale of mobile handset and provision of service. In this situation, the Group offers a discount that allows customers to buy mobile handsets and pay the cash selling price over two years after delivery.

In assessing whether such deferred payments schemes include a significant financing component, the Group has considered the length of time between the payment date and the completion date of legal assignments (i.e. the date when the customers obtain control of the mobile handset) based on the typical arrangements entered into with the customers.

Where such deferred payment schemes include a significant financing component, the transaction price will need to be adjusted to separately account for this component. Such adjustment will result in interest income being recognised to reflect the effect of the financing granted to the customers during the period between the payment date and the completion date of legal assignment. The Group is in the process of assessing the implication of the significant financing component Identified from preferential packages offered to customers.

The Group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 September 2018. As allowed by HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 September 2018. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial result from 2019 onwards.

(Expressed in Hong Kong dollars unless otherwise indicated)

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 AUGUST 2018 (continued)

HKFRS 16, *Leases*

As disclosed in note 1(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the income statement over the period of the lease. As disclosed in note 29(b), at 31 August 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to $114,335,000 and $104,616,000 for properties and other assets respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

The Group has not yet decided whether it will choose to take advantage of practical expedient and which transition approach to be taken.

Five year summary

(Expressed in Hong Kong dollars)

A summary of the results of the Group for the years ended 31 August 2014 and of the assets, equity and liabilities of the Group as at 31 August 2014 has been extracted from the prospectus of the Company dated 27 February 2015 with the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited on 12 March 2015, shown as follows:

	Years ended 31 August				
	2018	2017	2016	2015	2014
	$'000	$'000	$'000	$'000	$'000
Results					
Revenue	**3,948,952**	3,232,310	2,784,007	2,341,113	2,131,581
Profit from operations	**607,249**	465,396	476,645	449,980	296,608
Finance costs	**(117,288)**	(210,740)	(141,891)	(260,023)	(191,570)
Share of profits/(losses) of associates	**–**	3,418	(15)	–	–
Share of losses of joint ventures	**(693)**	(920)	(185)	(107)	–
Profit before taxation	**489,268**	257,154	334,554	189,850	105,038
Income tax	**(92,371)**	(86,044)	(89,875)	(85,582)	(51,488)
Profit for the year/period	**396,897**	171,110	244,679	104,268	53,550

Five year summary

(Expressed in Hong Kong dollars)

	As at 31 August				
	2018	2017	2016	2015	2014
	$'000	$'000	$'000	$'000	$'000
Assets and liabilities					
Goodwill	**1,804,904**	1,771,969	1,771,969	1,594,110	1,594,110
Intangible assets	**1,454,877**	1,612,707	1,550,209	1,330,501	1,440,668
Property, plant and equipment	**2,293,950**	2,289,790	2,419,890	1,969,803	1,957,006
Interest in associates	**–**	–	7,473	–	–
Interest in joint ventures	**8,095**	8,788	9,708	9,893	–
Other non-current assets	**64,950**	24,600	19,618	19,503	9,252
Deferred tax assets	**–**	–	–	–	–
Net current assets	**39,079**	115,211	95	138,664	166,041
Total assets less current liabilities	**5,665,855**	5,823,065	5,778,962	5,062,474	5,167,077
Other payables and accrued charges					
– long-term portion	**(201,266)**	(293,748)	(99,008)	(13,413)	–
Deferred services revenue					
– long-term portion	**(79,371)**	(92,752)	(55,923)	(13,844)	(7,932)
Obligations under granting of rights					
– long-term portion	**(24,819)**	(33,843)	(42,867)	(51,891)	(60,915)
Deferred tax liabilities	**(408,431)**	(423,618)	(450,980)	(438,916)	(457,897)
Contingent consideration					
– long-term portion	**(25,697)**	(2,869)	(27,885)	–	(3,430)
Provision for reinstatement costs	**(15,643)**	(16,015)	(17,644)	(11,334)	–
Senior notes	**–**	–	–	–	(2,994,058)
Bank loans	**(3,873,716)**	(3,831,332)	(3,721,297)	(3,018,889)	–
NET ASSETS	**1,036,912**	1,128,888	1,363,358	1,514,187	1,642,845
Capital and reserves					
Share capital	**101**	101	101	101	8
Reserves	**1,036,811**	1,128,787	1,363,257	1,514,086	1,642,837
TOTAL EQUITY	**1,036,912**	1,128,888	1,363,358	1,514,187	1,642,845

Corporate Information

Chairman and Independent Non-executive Director

Mr. Bradley Jay HORWITZ [2,4]

Executive Directors

Mr. Chu Kwong YEUNG [3,6]
Mr. Ni Quiaque LAI

Non-executive Director

Ms. Deborah Keiko ORIDA [4]

Independent Non-executive Directors

Mr. Stanley CHOW [2,4,5]
Mr. Yee Kwan Quinn LAW, SBS, JP [1,4,6]

1 Chairman of Audit Committee
2 Member of Audit Committee
3 Chairman of Nomination Committee
4 Member of Nomination Committee
5 Chairman of Remuneration Committee
6 Member of Remuneration Committee

Company Secretary

Ms. Maria Amy TAM (resigned on 15 June 2018)
Mr. Yue Kit Andrew WONG (appointed on 15 June 2018)

Authorised Representatives

Mr. Ni Quiaque LAI
Ms. Maria Amy TAM (resigned on 15 June 2018)
Mr. Yue Kit Andrew WONG (appointed on 15 June 2018)

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New Territories, Hong Kong

Auditor

KPMG
Certified Public Accountants
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10 Chater Road
Central
Hong Kong

Cayman Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
P.O. Box 1093
Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Citibank, N.A., Hong Kong Branch
50th Floor, Champion Tower
3 Garden Road, Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
3rd Floor, Standard Chartered Bank Building
4–4A Des Voeux Road Central
Hong Kong

Company's Website

www.hkbnltd.net

Stock Code

1310

References to HKEx ESG Reporting Guide

Aspects and General Disclosures	Descriptions	Related chapters/Notes
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Our Strategy, Report of the Directors, Environment
KPIs	• A1.1 The types of emissions and respective emissions data. • A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). • A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). • A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). • A1.5 Description of measures to mitigate emissions and results achieved. • A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	• Environment • Environment • Environment • Environment • Environment • Environment
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Our Strategy, Report of the Directors, Environment
KPIs	• A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). • A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility). • A2.3 Description of energy use efficiency initiatives and results achieved. • A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. • A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	• Environment • Environment • Environment • Not material to HKBN's business and therefore such data is not covered in this report • Not material to HKBN's business and therefore such data is not covered in this report

Aspects and General Disclosures	Descriptions	Related chapters/Notes
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Our Strategy, Report of the Directors, Environment
KPIs	• A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	• Environment
B. Social		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Our Strategy, Report of the Directors, Talents, Corporate Governance Report
KPIs	• B1.1 Total workforce by gender, employment type, age group and geographical region • B1.2 Employee turnover rate by gender, age group and geographical region	• Report of the Directors, Talents, Corporate Governance Report • This data is currently being consolidated, and will be disclosed when available
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Our Strategy, Report of the Director, Talents
KPIs	• B2.1 Number and rate of work-related fatalities • B2.2 Lost days due to work injury • B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored	• Talents • Talents • Talents

Aspects and General Disclosures	Descriptions	Related chapters/Notes
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Our Strategy, Talents, Corporate Governance Report
KPIs	• B3.1 The percentage of employees trained by gender and employee category • B3.2 The average training hours completed per employee by gender and employee category	• This data is currently being consolidated, and will be disclosed when available • This data is currently being consolidated, and will be disclosed when available
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Our Strategy, Report of the Directors, Talents, Corporate Governance Report
KPIs	• B4.1 Description of measures to review employment practices to avoid child and forced labour • B4.2 Description of steps taken to eliminate child and forced labour practices when discovered	• Report of the Directors • Report of the Directors
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Our Strategy, Report of the Directors, Suppliers
KPIs	• B5.1 Number of suppliers by geographical region • B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	• Not material to HKBN's business and therefore such data is not covered in this report • Our Strategy, Report of the Directors, Suppliers

References to HKEx ESG Reporting Guide

Aspects and General Disclosures	Descriptions	Related chapters/Notes
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Our Strategy, Report of the Directors, Customer, Corporate Governance Report
KPIs	• B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons • B6.2 Number of products and service related complaints received and how they are dealt with • B6.3 Description of practices relating to observing and protecting intellectual property rights • B6.4 Description of quality assurance process and recall procedures • B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored	• This data is currently being consolidated, and will be disclosed when available • This data is currently being consolidated, and will be disclosed when available • Report of the Directors, Corporate Governance Report • This information is currently being collected, and will be disclosed when available • Report of the Directors, Customer, Corporate Governance Report
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Corporate Governance Report
KPIs	• B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases • B7.2 Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	• Corporate Governance Report • Corporate Governance Report
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Our Strategy, Community
KPIs	• B8.1 Focus areas of contribution • B8.2 Resources contributed to the focus areas	• Our Strategy, Community • Community

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