HKBN Ltd.

香港寬頻有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1310)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 AUGUST 2020

(Unless otherwise stated, all monetary figures in this announcement are in Hong Kong dollars.)

The board of directors (the "**Board**") of HKBN Ltd. (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 August 2020.

- Revenue, EBITDA and Adjusted Free Cash Flow ("**AFF**") continued to grow year-on-year at 85%, 47% and 49%, respectively, to $9,453 million, $2,505 million and $1,114 million. The substantial year-on-year increase was mainly contributed by:

  ➢ Increase of Enterprise Solutions revenue by 103% to $4,708 million, which was mainly contributed by the full year operating results of WTT[#] and eight and a half months operating results of HKBN JOS*.

  ➢ Reported EBITDA increased by 47% to $2,505 million after adoption of HKFRS 16 in FY20. Excluding the impact of HKFRS 16, EBITDA would have increased 32% from $1,709 million to $2,251 million mainly contributed by consolidating the operating results of WTT and HKBN JOS and the realisation of synergies through integration.

- The Board has recommended the payment of a final dividend of 38 cents per share (FY19: 36 cents per share), resulting in a 7% year-on-year increase in full year payment to 75 cents per share (FY19: 70 cents per share).

WTT represents HKBN Enterprises Solutions Development Ltd and its subsidiaries.

* *HKBN JOS represents HKBN JOS Holdings (C.I.) Limited and its subsidiaries, Adura Hong Kong Limited and Adura Cyber Security Services Pte. Ltd..*

SHAREHOLDER LETTER

Dear fellow Shareholders,

Let's first express our deep appreciation to all our Fellow 5,929 HKBNers for the incredible work in delivering dividend per share growth of 7% to $0.75 for FY20, which is by far the highest growth within our telecom industry peer group. We are particularly proud of these results as they are inclusive of our comprehensive pay-it-forward #ToughTimesTogether initiatives such as 1-month service fee waiver to our entire residential fixed-line and enterprise customer base, 10,000 free broadband lines for the underprivileged, 100 fresh graduate hires being 10x more than what we need, and most significantly, pass-through to all our eligible Talents of regional government wage subsidies.

Whereas COVID-19 is an unprecedented global crisis, at HKBN we see COVID-19 as an unprecedented calling to serve our community and an accelerant for our own much needed transformations. In confronting the COVID-19 situation, our baseline is "perfect is the enemy of good", i.e. we embrace imperfect and incomplete information decision making and rely on our agility to adjust to changing conditions. In uncertainty, our Company's clear core purpose of "**Make our Home a Better Place to Live**" sets a very clear priority on safety above all else, impact to the community and taking care of our wide range of stakeholders. At HKBN, we consider profit to be a subset of PURPOSE and we run HKBN for PURPOSE.

At HKBN we "eat what we cook", i.e. we must first transform ourselves as to earn the right to help others transform. Our digital transformation, which we accelerated a couple of years ago, is now paying big dividends. Being digital has transformed our Company from a "fibre" company to a "distribution" company, leveraging our massive reach of 1-in-3 residential households and 1-in-2 active enterprises in Hong Kong.

At HKBN, we condemn "silos", i.e. we intermix our residential and enterprise scale to empower innovations such as our Barter & Bundle, where we happily accept partial payment for our enterprise solutions in the form of service vouchers to use in our residential acquisition and retention programmes. In doing so, we transform our enterprise customers into our business partners which opens a far greater range of opportunities for value creation. Our partners, formerly known as enterprise customers, love our Barter & Bundle as this brings new business from our massive reach to them. Whereas in the past, we were selling our telecom services to their procurement team, we are now strategising CEO-to-CEO to improve our businesses for true Win-Win-Win for our enterprise partners, our residential customers and HKBN.

With each sequential integration of our five acquisitions post our Management Buy Out in 2012, we have learned and strengthened our "best of breed" merger process. Our baseline is that there is no ex-HKBN, ex-WTT, ex-JOS, etc silo culture that should survive, but rather there is only one "best of breed" 1-HKBN. Our deep Co-Ownership alignment means we have skin-in-the-game to realise integration gains. So far, we are well on track to fully realise the highlighted $300 million synergies from our recent WTT Merger and JOS Acquisition by FY21.

Beyond our operational transformation, we are super excited to see the formal launch of our HKBN Talent CSI Fund seeded by Co-Owners' contribution of 4 million HKBN shares currently valued at over $54 million. This fund is governed independently from the HKBN executive group with the additional checks and balances of independent non-executive directors as voted in by Co-Owners. Having a percentage of our HKBN owned by this Fund means that we are perpetually aligned, i.e. the more value and dividends we execute for HKBN, the more funding this CSI Fund will have to make positive impacts. This perpetual alignment gives our CSI Fund the runway to make strategic impact, rather than just short term ad-hoc initiatives.

At HKBN, we embrace "Change or Die" and we want to live. We have exited past predicaments such as SARS in 2003 and the global financial crisis in 2008 stronger than when they hit us, and this is exactly what we are doing with COVID-19.

We are here to GROW!

Sincerely yours,

William Yeung
Co-Owner and Executive Vice-chairman

NiQ Lai
Co-Owner and Group CEO

KEY FINANCIAL AND OPERATIONAL SUMMARY

Table 1: Financial highlights

	For the year ended 31 August 2020	31 August 2019	Change YoY
Key financials *($'000)*			
Revenue	**9,452,957**	5,107,637	+85%
– Enterprise Solutions	**4,708,063**	2,324,329	>100%
– Enterprise Solutions related product	**1,806,409**	–	n/a
– Residential Solutions	**2,447,072**	2,472,707	-1%
– Other product	**491,413**	310,601	+58%
Profit for the year	**96,611**	214,527	-55%
Adjusted Net Profit [1,2]	**600,190**	538,175	+12%
EBITDA [1,3]	**2,505,443**	1,709,348	+47%
Service EBITDA [1,3]	**2,191,763**	1,687,529	+30%
Service EBITDA margin [1,4]	**30.6%**	35.2%	-4.6pp
Adjusted Free Cash Flow [1,5]	**1,114,144**	750,170	+49%

Reconciliation of Adjusted Net Profit [1,2]

	2020	2019	Change YoY
Profit for the year	**96,611**	214,527	-55%
Amortisation of intangible assets	**609,895**	283,776	>100%
Deferred tax arising from amortisation of intangible assets	**(98,017)**	(45,599)	>100%
Loss on extinguishment of senior notes	**43,595**	–	n/a
Deferred tax recognised on unused tax losses	**(80,304)**	–	n/a
Loss on derecognition of contingent consideration	**14,624**	–	n/a
Impairment loss on investment properties	**7,217**	–	n/a
Transaction costs in connection with business combination	**6,569**	75,608	-91%
Transaction costs in connection with proposed business combination	**–**	9,863	-100%
Adjusted Net Profit	**600,190**	538,175	+12%

	For the year ended		
	31 August 2020	31 August 2019	**Change YoY**
Reconciliation of EBITDA & Adjusted Free Cash Flow [1,3,5]			
Profit for the year	**96,611**	214,527	-55%
Finance costs	**526,961**	259,271	>100%
Interest income	**(3,287)**	(4,083)	-19%
Income tax (credit)/charge	**(4,509)**	94,835	>100%
Depreciation	**974,267**	534,758	+82%
Amortisation of intangible assets	**609,895**	283,776	>100%
Amortisation of customer acquisition and retention costs	**291,719**	240,793	+21%
Impairment loss on investment properties	**7,217**	–	n/a
Transaction costs in connection with business combination	**6,569**	75,608	-91%
Transaction costs in connection with proposed business combination	**–**	9,863	-100%
EBITDA	**2,505,443**	1,709,348	+47%
Capital expenditure	**(540,565)**	(413,860)	+31%
Net interest paid	**(429,651)**	(276,802)	+55%
Other non-cash items	**9,337**	3,525	>100%
Income tax paid	**(161,758)**	(117,396)	+38%
Customer acquisition and retention costs	**(288,838)**	(231,901)	+25%
Premium paid on senior notes redemption	**(31,457)**	–	n/a
Lease payments in relation to right-of-use assets	**(239,554)**	–	n/a
Changes in working capital	**291,187**	77,256	>100%
Adjusted Free Cash Flow	**1,114,144**	750,170	+49%

Notes: The Group had changed its accounting policies with effect from 1 September 2019 as a result of adopting HKFRS 16, *Leases* ("**HKFRS 16**"). Under HKFRS 16, the Group recognised right-of-use assets and lease liabilities arising from certain lease commitments. Details on the financial impact and accounting policy changes can be referred to note 2 to this announcement. The adoption of HKFRS 16 had no impact on adjusted free cash flow.

KEY FINANCIAL AND OPERATIONAL SUMMARY (CONTINUED)

Table 2: Operational highlights

	For the year ended		
	31 August 2020	31 August 2019	Change YoY
Enterprise business			
Commercial building coverage	**7,374**	7,224	+2%
Subscriptions *('000)*			
– Broadband	**117**	116	+1%
– Voice	**443**	454	-2%
Market share [6]			
– Broadband	**36.8%**	37.8%	-1.0pp
– Voice	**25.3%**	25.3%	+0pp
Enterprise customers *('000)*	**105**	103	+2%
Broadband churn rate [9]	**1.4%**	1.3%	+0.1pp
Enterprise ARPU [10]	**$2,948**	$1,742	+69%
Residential business			
Fixed telecommunications network services business			
Residential homes passed *('000)*	**2,415**	2,360	+2%
Subscriptions *('000)*			
– Broadband	**886**	878	+1%
– Voice	**498**	500	-0%
Market share [6]			
– Broadband	**35.2%**	35.8%	-0.6pp
– Voice	**22.4%**	22.0%	+0.4pp
Broadband churn rate [7]	**0.9%**	0.9%	-0pp
Residential ARPU (Without TTT) [8]	**$190**	$185	+3%
Residential ARPU (With TTT) [8]	**$187**	$185	+1%
Mobile business			
Mobile subscriptions *('000)*	**275**	277	-1%
Mobile ARPU [11]	**$110**	$127	-13%
Residential customers *('000)*	**1,019**	1,019	-0%
Total full-time permanent Talents	**5,929**	4,131	+44%

Notes:

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

(2) Adjusted Net Profit means profit for the period plus amortisation of intangible assets (net of deferred tax credit and direct cost incurred in corresponding period) and other non-recurring item. Other non-recurring item, in the period under review, include transaction costs in connection with business combination, loss of extinguishment of senior notes, loss on derecognition of contingent consideration, impairment loss on investment properties and deferred tax recognised on unused tax losses.

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

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

(5) Adjusted Free Cash Flow means EBITDA less capital expenditure, customer acquisition and retention costs, net interest paid, income tax paid, premium paid on senior notes redemption, lease payments in relation to right-of-use assets, changes in working capital and other non-cash items. Working capital includes other non-current assets, inventories, trade receivables, finance lease receivables, other receivables, deposits and prepayments, contract assets, amounts due from joint ventures, amounts due to joint ventures, trade payables, contract liabilities, and deposits received. Other non-cash items, in the period under review, include amortisation of obligations under granting of rights, change in fair value of contingent consideration, Co-Ownership Plan II related non-cash items and loss on derecognition of contingent consideration.

(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 June 2020 market data.

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

(8) ARPU means average revenue per user per month. Calculated by dividing the revenue generated in the relevant period from services subscribed by residential broadband subscribers, which include broadband services and any bundled voice, IP-TV and/or other entertainment services (excluding revenue from IDD and mobile services), by the number of average residential broadband subscriptions and further dividing by the number of months in the relevant period. Average residential broadband subscriptions are calculated by dividing the sum of such subscriptions at the beginning of the period and the end of the period by two. Our use and computation of residential ARPU may differ from the industry definition of ARPU due to our tracking of revenue generated from all services subscribed by residential broadband subscribers. We believe this gives us a better tool for observing the performance of our business as we track our residential ARPU on a bundled rather than standalone basis. "TTT" represents the campaign namely ToughTimesTogether, in which the Group offered one-month service fee waiver to its customers for the purpose of relieving the household financial burden caused by COVID-19.

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

(10) ARPU means average revenue per user per month. Calculated by dividing the revenue generated in the relevant period from the enterprise telecom and technology solutions business (excluding revenue from IDD, Enterprise Solutions related product and mobile services) by the average number of enterprise customers and further dividing by the number of months in the relevant period. Average number of enterprise customers is the sum of: i) number of enterprise telecom customers, as calculated by dividing the sum of enterprise telecom customers at the beginning of the period and the end of the period by two, and; ii) the number of enterprise solutions customers, which represents the number of unique customers with billing transactions on technology solutions related services during the financial period. This metric may be distorted by the impact of certain particularly large contracts we have with enterprise customers. Enterprise ARPU calculation for the year ended 31 August 2020 includes the relevant revenue and average number of enterprise customers of WTT, HKBN JOS and HKBN for the year ended 31 August 2020. As such, the enterprise ARPU may be different if full year information of HKBN JOS was used. For information, the Enterprise ARPU for the Group for the month August 2020 was $3,116.

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

(12) Enterprise customers means total number of enterprise customers excluding IDD, product resell and mobile customers.

BUSINESS REVIEW

Under the challenge of COVID-19, the Group still managed to deliver a solid set of operational and financial results for the year ended 31 August 2020. During the year, the Group completed the JOS Acquisition and has further bolstered our offerings and capabilities in the enterprise space as the largest alternative telecom carrier with integrated telecom and technology solutions capabilities in Hong Kong. Residential business continued to thrive as we relentlessly delivered customer-focused, integrated and high value-for-money services to our customers, which rewarded the Group with higher ARPU and stable monthly churn rate in return. Taking into consideration eight and a half months results of HKBN JOS and the full year results of original HKBN Group and WTT, the Group revenue, EBITDA, and AFF increased year-on-year by 85%, 47% and 49% to $9,453 million, $2,505 million and $1,114 million respectively.

- Enterprise Solutions revenue increased by 103% year-on-year to $4,708 million after consolidating the full year operating results of WTT and eight and a half months of operating results of HKBN JOS in the current year. In spite of the gloomy economic outlook brought about by COVID-19, our business showed resilience in this difficult time as indicated by the stable customer churn. Total number of enterprise customers increased to 105,000 and our enterprise ARPU improved from $1,742 to $2,948. WTT and HKBN JOS integrations have been completed successfully. Both the sales team and back-end support functions have been streamlined to effectively execute the 1-HKBN strategy and to realise cost synergies.

  Enterprise Solutions related product revenue increased to $1,806 million, mainly contributed by eight and a half months of operating results of HKBN JOS in the current year.

  WTT Merger* and JOS Acquisition increased both our capabilities and offerings in the enterprise segment, which have enabled us to provide integrated telecom and technology solutions at competitive value to a much larger customer base. Throughout both integrations, our senior management has relentlessly engaged key customers and vendors to understand their needs and challenges. We see many more growth opportunities as we further streamline our combined operations and fully exploit the upsell potential through integration.

- Residential Solutions revenue dropped by 1% year-on-year to $2,447 million, mainly due to the one-month service fee waiver we granted to the customers during the year for the purpose of relieving the household financial burdens caused by COVID-19. Putting aside the impact of the service fee waiver, revenue slightly increased by 0.4% year on year to $2,483 million as a result of the successful execution of our quad-play strategy, which increased ARPU while achieving subscription growth, partly offset by the drop in mobile services revenue. The impact of COVID-19 to the residential business is mainly operational, whereby offline promotional activities were at times limited and new installations needed rescheduling due to social distancing. However, the flip side of this change in behavior has helped in some areas, such as better customer retention and the improved traffic on our digital platforms.

* *WTT Merger refers to the acquisition of the entire issued share capital of WTT Holding Corp by Metropolitan Light Company Limited, a direct wholly-owned subsidiary of the Company, on 30 April 2019.*

Our customer base has shown good receptiveness to our quad-play offerings whereby our triple/quad-play upsell has reached 50% of our total broadband customers as at 31 August 2020. Excluding the one-month service fee waiver, historical full base residential ARPU has increased by 3% year-on-year, from $185/month to $190/month, while our monthly churn rate remained low. Our market share by broadband subscriptions remained stable at 35% as at 30 June 2020 (based on the latest available OFCA statistics).

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

- Other product revenue increased by 58% to $491 million, mainly represented by the sales of smartphone products that complement our mobile business.

Network costs and costs of sales increased by 169% year-on-year to $4,926 million mainly due to enlarged business scale after the integration with WTT and HKBN JOS, and organic business growth during the year. Cost of inventories increased by 587% to $1,983 million mainly due to the contribution by HKBN JOS.

Other operating expenses increased by 44% year-on-year from $2,735 million to $3,933 million mainly due to (i) the increase of Talent costs by $375 million caused by the increase of headcount number by 1,798 Talents after WTT Merger and JOS Acquisition in 2019; (ii) increase in depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of customer acquisition and retention costs and amortisation of intangible assets by $201 million, $187 million, $51 million and $325 million, respectively, which mainly attributed to the full year contributions of WTT and eight and a half months contributions of HKBN JOS; (iii) increase in advertising and marketing expenses by $24 million due to the contributions from of WTT and HKBN JOS; and (iv) increase in other expenses contributed by the enlarged business scales. We have applied for various employment relief subsidies offered by governments in the regions we operate in and have substantially passed through these subsidies to all our eligible Talents during the year.

Finance cost increased by 103% year-on-year from $259 million to $527 million mainly caused by the increase of interest on senior notes by $153 million due to the full year consolidation with WTT, one-off loss on extinguishment of senior notes of $44 million arose from the partial redemption of the senior notes and increase of interest and finance charges on bank loans of $61 million due to the increase in borrowing rate during the year.

Income tax changed from tax charge of $95 million to tax credit of $5 million which is due to the recognition of deferred tax assets arising from the unused tax loss of Group subsidiary.

As the result of the aforementioned factors, profit attributable to equity shareholders decreased by 55% to $97 million.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets (net of deferred tax credit), and non-recurring items, increased by 12% year-on-year to $600 million. This was mainly contributed by the combined operating performance of the enlarged Group.

Reported EBITDA increased by 47% year-on-year from $1,709 million to $2,505 million, mainly contributed by the reducing operating lease expense after the adoption of HKFRS 16 and consolidating the operating results of WTT and HKBN JOS during the year.

Services EBITDA, which is excluding the gross profits on Enterprise Solutions related product and other product, increased by 30% year-on-year from $1,688 million to $2,192 million, mainly due to the full year contributions from WTT and HKBN JOS. Services EBITDA margin decreased by 4.6 percentage points from 35.2% to 30.6%, mainly caused by the consolidating eight and a half months of operating results of HKBN JOS, which had a much lower margins.

AFF rose by 49% year-on-year to $1,114 million mainly due to the consolidation of full year results of WTT and eight and a half months results of HKBN JOS. The Group also benefited from cash inflow through better working capital management.

OUTLOOK

The WTT Merger and JOS Acquisition have greatly enhanced the combined Group's capabilities, in terms of extended customer reach, wider service offerings and enhanced market competition in the enterprise space. HKBN had proven success in integrating five add-on acquisitions since management buyout in 2012. As both businesses are highly complementary, we are confident that the combined organisation shall deliver both operational and financial synergies to shareholders.

Market competition continues to be intense for our existing business. We shall focus on harvesting our substantially invested network and our monthly billing relationships by upselling more services by collaborating with new partnerships through our well established digital platforms. We shall drive sustainable growth in revenue, EBITDA and AFF through the following initiatives:

- Continue to foster Co-Ownership culture to align risks and rewards of our Talents with our key stakeholders. We had invited eligible WTT and HKBN JOS Talents to the Co-Ownership scheme, which was well received. As of 31 August 2020, the take up rate of Co-Ownership by eligible Talents for managers and above was 75% and 47% overall;

- Maximise the operational and financial synergies benefits from the enlarged Group, and fully utilise the network capacity and back-end support function of WTT and HKBN JOS in transforming the Group to a truly integrated telecom and technology solutions powerhouse. With successful WTT integration, we target to achieve over $300 million synergy by the year ending 31 August 2021;

- Continue to invest in a series of telecom and technology solutions and initiatives such as Barter & Bundle, Transformation as a Services (TaaS), digital platforms and e-commerce to further penetrate the enterprise and residential market, in turn, sharing a larger wallet of spending;

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

- To further lower finance costs by refinancing relatively expensive senior notes and deleverage to below 4x net debt to EBITDA ratio to enjoy a better interest rate grid of existing bank facilities.

Undoubtedly, COVID-19 shall continue to affect our daily lives and the business environments of Hong Kong and other territories in the coming year. Our business has shown resilience in the past year but we expect challenges such as delays in customer projects, prolonged collection and payments shall poses certain risks to our business. The fact that we are a much larger company with diversified business, vast customer reach and a Co-Ownership culture shall help us navigate these challenges ahead.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 August 2020, the Group had total cash and cash equivalents of $676 million (31 August 2019: $663 million) and gross debt (principal amount of outstanding borrowing) of $10,487 million (31 August 2019: $9,712 million), which led to a net debt position of $9,811 million (31 August 2019: $9,049 million). The significant increase in gross debt is mainly due to the financing for the JOS Acquisition during the year.

- The Group's gearing ratio, which was expressed as a ratio of the gross debt over total equity, was 1.6x as at 31 August 2020 (31 August 2019: 1.3x).

- The Group's net debt to EBITDA ratio as computed in accordance with the term of the Group's various loan facilities is approximately 4.4x (31 August 2019: 4.2x). The significant increase in net debt to EBITDA ratio is mainly due to the financing for the acquisition of HKBN JOS, and the consolidation of the existing banking facilities of HKBN JOS for working capital purpose.

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 31 August 2020 and 31 August 2019. As at 31 August 2020, the Group had an undrawn revolving credit facility of $1,840 million (31 August 2019: $200 million).

Under the liquidity and capital resources condition as at 31 August 2020, the Group can fund its capital expenditures and working capital requirements for the period with internal resources and the available banking facilities.

HEDGING

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

The Group entered into a currency forward to buy USD at 7.778 in the principal amount of US$621 million with an international financial institution that matures on 30 November 2020. Benefiting from hedging arrangement, the Group substantially fixed the USD/HKD exchange until maturity of the instrument.

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 1.8 years from 31 August 2018 to 29 May 2020. After the lapse of the aforementioned swap, the Group's borrowings were still substantially based on fixed rate, mainly due to the senior notes inherited from the WTT Merger. Management shall continue to evaluate the need for hedging interest rate in the content of the market condition and financing activities.

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

CHARGE ON GROUP ASSETS

As at 31 August 2020, the Group pledged assets to secured the other borrowings of $20 million (31 August 2019: Nil).

CONTINGENT LIABILITIES

As at 31 August 2020, the Group had total contingent liabilities of $140 million (31 August 2019: $8 million) in respect of bank guarantees provided to suppliers and customers and utility vendors in lieu of payment of utility deposits. The increase of $132 million was mainly contributed by HKBN JOS as a guarantee for the obligations with their suppliers and customers.

EXCHANGE RATES

All the Group's monetary assets and liabilities are primarily denominated in either Hong Kong dollars ("**HKD**") or United States dollars ("**USD**"). Given the exchange rate of HKD to the USD has remained close to the current pegged rate of HKD7.80 = USD1.00 since 1983, management does not expect significant foreign exchange gains or losses between the two currencies. The Group is also exposed to a certain amount of foreign exchange risk based on fluctuations between HKD and Renminbi arising from its operations. In order to limit this foreign currency risk exposure, the Group ensures that the net exposure is kept to an acceptable level of buying or selling foreign currencies at spot rates where necessary.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 23 August 2019, HKBN Group Limited ("**HKBNGL**"), an indirect wholly-owned subsidiary of the Company, (as purchaser) and JTH (BVI) Limited ("**JTH**") (as seller), amongst others, entered into the share purchase agreement (the "**Share Purchase Agreement**"), pursuant to which, among other things, HKBNGL conditionally agreed to purchase, and JTH conditionally agreed to sell, the entire issued share capital of HKBN JOS Holdings (C.I.) Limited (formerly known as "Jardine OneSolution Holdings (C.I.) Limited"), Adura Hong Kong Limited and Adura Cyber Security Services Pte. Ltd. (collectively, the "**Target Companies**") for a consideration of US$50 million (representing approximately $392 million) in cash ("**JOS Acquisition**"). The condition precedent as set out in the Share Purchase Agreement was satisfied and the completion of JOS Acquisition took place on 13 December 2019. The Target Companies have become direct wholly-owned subsidiaries of HKBNGL and indirect wholly-owned subsidiaries of the Company. Please refer to the announcements of the Company dated 23 August 2019 and 13 December 2019, and the circular of the Company dated 21 November 2019 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 2020.

TALENT REMUNERATION

As at 31 August 2020, the Group had 5,929 permanent full-time Talents (31 August 2019: 4,131 Talents). The Group provides remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and dependent on both the Group's and individual performances. The Group also provides comprehensive medical insurance coverage, competitive retirement benefits schemes, and Talent training programmes.

RESTRICTED SHARE UNIT SCHEMES

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

Co-Ownership Plan II

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

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

The total number of shares that may underlie the RSUs granted pursuant to the Co-Ownership Plan II shall be (i) 10% of the shares in issue on 12 March 2015 (the "**Listing Date**"), the date on which the Company was listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or (ii) 10% or less of the shares in issue as at the date following the date of approval of the renewed limit (as the case may be). The Co-Ownership Plan II shall be valid and effective for the period commencing on the Listing Date and expiring on the tenth anniversary thereof or such earlier date as it is terminated in accordance with the terms of the Co-Ownership Plan II, after which period no further RSUs shall be offered or granted.

In order to enable the Co-Ownership Plan II trustee to release shares to participants upon vesting of each RSU, the Company allotted and issued, on the Listing Date, by way of capitalisation issue 5,666,666 shares to the Co-Ownership Plan II trustee. Such shares represented approximately 0.56% of the total issued share capital of the Company on the Listing Date. The Co-Ownership Plan II trustee will hold such shares on trust until their release to participants upon vesting of the RSUs.

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

Details of movements of the Co-Ownership Plan II during the year ended 31 August 2020 are as follows:

		Number of RSUs								
								To be vested on 30 January/26 February (As at 31 August 2020)		
Participants	**Date of grant**	**Granted**	**As at 1 September 2019**	**Granted during the year**	**Forfeited during the year**	**Vested during the year**	**As at 31 August 2020**	**2020**	**2021**	**2022**
Other Participants	24 January 2017	400,472	148,839	–	2,476	146,363	–	–	–	–
Other Participants	20 July 2017	252,635	111,215	–	–	111,215	–	–	–	–
Other Participants	30 January 2019	329,330	292,092	–	19,080	72,634	200,378	–	66,772	133,606
Other Participants	26 February 2019	126,410	126,410	–	–	31,591	94,819	–	31,591	63,228
Total		**1,108,847**	**678,556**	**–**	**21,556**	**361,803**	**295,197**	**–**	**98,363**	**196,834**

Co-Ownership Plan III Plus

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

Under the Co-Ownership Plan III Plus, the granting of the RSUs to the eligible participants depends on the level of the adjusted available cash per share for distribution achieved, on a cumulative basis, during the 2019, 2020 and 2021 financial years. The minimum level of the adjusted available cash per share for distribution required to be achieved by the Company before any RSU will be granted is an amount in excess of $2.53 on a cumulative basis over the 2019, 2020 and 2021 financial years of the Company. If the adjusted available cash per share for distribution, on a cumulative basis, over the 2019, 2020 and 2021 financial years of the

Company reaches \$3.03, RSUs will be granted to the grantees on the basis that the grantees would, subject to the satisfaction of the vesting conditions and on the vesting date, receive 1.33 award shares for every purchased share. The granting of the RSUs will occur earlier than the publication of the annual results of the Company for the 2021 financial year if the maximum targeted accumulated adjusted available cash per share for distribution is achieved prior to the end of the 2021 financial year. Accumulated adjusted available cash per share for distribution in excess of \$3.03 will not give rise to any further entitlement.

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

Details of the share purchase movements under the Co-Ownership Plan III Plus during the year ended 31 August 2020 are as follows:

Batch of purchase	Number of shares purchased during the year	Number of shares purchased to be forfeited during the year (i.e. purchased shares returned to Bad Leavers*)	Number of shares under Co-Ownership Plan III Plus as at 31 August 2020	Approximate percentage of the issued share capital of the Company as at 31 August 2020	Approximate percentage of shares purchased under the Scheme Mandate Limit utilised as at 31 August 2020
2020 1st Batch Purchase					
Executive Directors of the Company:					
– Mr. Chu Kwong YEUNG	848,002	–	848,002	0.065%	2.155%
– Mr. Ni Quiaque LAI	556,007	–	556,007	0.042%	1.413%
Directors of the Company's subsidiaries	1,227,976	–	1,227,976	0.094%	3.121%
Other participants	18,210,868	500,039	17,710,829	1.350%	45.011%
2020 2nd Batch Purchase					
Other participants	554,377	–	554,377	0.042%	1.409%
Total	**21,397,230**	**500,039**	**20,897,191**	**1.593%**	**53.109%**

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

ANNUAL GENERAL MEETING

2020 annual general meeting of the Company (the "**2020 AGM**") will be held on Monday, 14 December 2020 and the notice will be published and issued to shareholders of the Company in due course.

FINAL DIVIDEND

The Directors recommended the payment of a final dividend of 38 cents per share for the year ended 31 August 2020 (31 August 2019: 36 cents per share) to the shareholders whose names appear on the register of members of the Company on Wednesday, 23 December 2020. Subject to the approval by the Shareholders at the 2020 AGM, the proposed final dividend is expected to be paid in cash on or around Thursday, 7 January 2021.

The dividend policy of the Company is to pay dividends in an amount of not less than 90% of the AFF with an intention to pay 100% of the AFF in respect of the relevant year/period, after adjusting for potential debt repayment, if required.

Based on the terms and conditions of the Vendor Loan Notes, the holders of Vendor Loan Notes were entitled to receive a cash amount payable by the Company equal to $63,582,441 based on the 38 cents final dividend per ordinary share declared by the Company for the year ended 31 August 2020, as if the holders of the Vendor Loan Notes were holders of 167,322,212 ordinary shares in the Company as of the record date for such final dividend. Such cash amount will be paid by the Company to the holders of Vendor Loan Notes on Thursday, 7 January 2021, being the date on which the 2020 final dividend will be paid by the Company.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Wednesday, 9 December 2020 to Monday, 14 December 2020, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the 2020 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 8 December 2020.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 21 December 2020 to Wednesday, 23 December 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 18 December 2020.

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

During the year ended 31 August 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

REVIEW OF ANNUAL RESULTS AND ANNUAL FINANCIAL STATEMENTS

The Audit Committee has reviewed with the management and the external auditor the annual results of the Group for the year ended 31 August 2020, the accounting principles and practices adopted by the Group, as well as discussion on auditing, internal control, risk management and financial reporting matters of the Group.

The annual financial statements of the Group for the year ended 31 August 2020 has been reviewed by the Audit Committee and approved by the Board of the Company.

The financial figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 August 2020 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the auditor.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the "Corporate Governance Code and Corporate Governance Report" (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange throughout the year ended 31 August 2020 except for the following deviation:

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by Directors. Having made specific enquiries with all Directors, they confirm that they have complied with the Model Code throughout the year ended 31 August 2020.

PUBLICATION OF FINAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hkbnltd.net). The annual report of the Company for the year ended 31 August 2020 will be despatched to the shareholders of the Company and made available on the same websites in due course.

By order of the Board
HKBN Ltd.
Bradley Jay HORWITZ
Chairman

Hong Kong, 29 October 2020

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

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

Non-executive Directors
Ms. Suyi KIM
Mr. Zubin Jamshed IRANI
Mr. Teck Chien KONG

Independent Non-executive Directors
Mr. Bradley Jay HORWITZ *(Chairman)*
Mr. Stanley CHOW
Mr. Yee Kwan Quinn LAW, SBS, JP

Where the English and the Chinese texts conflict, the English text prevails.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2020

		Year ended	
		31 August	31 August
		2020	2019
	Note	***$'000***	*$'000*
Revenue	*3*	**9,452,957**	5,107,637
Other net income	*4(a)*	**25,812**	29,926
Network costs and costs of sales		**(4,926,272)**	(1,834,054)
Other operating expenses	*4(b)*	**(3,933,192)**	(2,734,600)
Finance costs	*4(d)*	**(526,961)**	(259,271)
Share of losses of joint ventures		**(242)**	(276)
Profit before taxation	*4*	**92,102**	309,362
Income tax credit/(charge)	*5*	**4,509**	(94,835)
Profit for the year		**96,611**	214,527
Attributable to:			
Equity shareholders of the Company		**97,174**	214,527
Non-controlling interests		**(563)**	–
Profit for the year		**96,611**	214,527
Earnings per share			
Basic	*6*	**7.4 cents**	19.4 cents
Diluted	*6*	**6.6 cents**	18.4 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2020

	Year ended 31 August 2020 $'000	31 August 2019 $'000
Profit for the year	**96,611**	214,527
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	**8,360**	(6,198)
Exchange loss on translating foreign operations transferred to consolidated income statement upon disposal	**875**	–
Other comprehensive income for the year	**9,235**	(6,198)
Total comprehensive income for the year	**105,846**	208,329
Attributable to:		
Equity shareholders of the Company	**106,409**	208,329
Non-controlling interests	**(563)**	–
Total comprehensive income for the year	**105,846**	208,329

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 AUGUST 2020

	Note	At 31 August 2020 $'000	At 31 August 2019 $'000
Non-current assets			
Goodwill		**9,016,507**	8,788,319
Intangible assets		**4,200,644**	4,638,643
Property, plant and equipment		**4,112,260**	4,341,590
Investment properties		**206,800**	222,041
Right-of-use assets		**886,709**	–
Customer acquisition and retention costs		**595,149**	598,030
Contract assets		**–**	4,740
Interest in an associate		**4,438**	–
Interest in joint ventures		**9,387**	9,429
Deferred tax assets		**91,258**	–
Finance lease receivables		**6,534**	–
Other non-current assets		**81,012**	32,105
		19,210,698	18,634,897
Current assets			
Inventories		**154,641**	29,168
Trade receivables	*8*	**1,356,935**	557,439
Other receivables, deposits and prepayments		**359,458**	240,894
Finance lease receivables		**1,253**	–
Contract assets		**303,839**	241,717
Amounts due from joint ventures		**19,600**	15,093
Tax recoverable		**717**	–
Financial assets at fair value through profit or loss		**40,517**	–
Cash and cash equivalents		**676,457**	662,816
		2,913,417	1,747,127
Current liabilities			
Trade payables	*9*	**830,805**	365,976
Other payables and accrued charges – current portion		**1,240,907**	907,317
Contract liabilities – current portion		**706,827**	219,763
Deposits received		**76,049**	72,443
Obligations under granting of rights – current portion		**9,024**	9,024
Amount due to an associate		**4,438**	–
Amounts due to joint ventures		**10,750**	10,750
Contingent consideration – current portion		**–**	1,371
Bank and other borrowings		**1,310,667**	–
Lease liabilities – current portion		**234,258**	–
Tax payable		**199,521**	158,480
Other current liabilities		**8,704**	–
		4,631,950	1,745,124
Net current (liabilities)/assets		**(1,718,533)**	2,003
Total assets less current liabilities		**17,492,165**	18,636,900

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 AUGUST 2020

	At 31 August 2020 $'000	At 31 August 2019 $'000
Non-current liabilities		
Other payables and accrued charges – long-term portion	**87,677**	143,600
Contract liabilities – long-term portion	**219,939**	187,690
Obligations under granting of rights – long-term portion	**6,771**	15,795
Deferred tax liabilities	**1,033,447**	1,131,440
Contingent consideration – long-term portion	**–**	28,278
Lease liabilities – long-term portion	**445,804**	–
Provision for reinstatement costs	**67,320**	50,146
Bank and other borrowings	**5,018,368**	4,454,253
Senior notes	**4,101,847**	5,169,137
Other non-current liabilities	**50,493**	–
	11,031,666	11,180,339
NET ASSETS	**6,460,499**	7,456,561
CAPITAL AND RESERVES		
Share capital	**132**	132
Reserves	**6,460,367**	7,456,429
Total equity attributable to equity shareholders of the Company	**6,460,499**	7,456,561
Non-controlling interests	**–**	–
TOTAL EQUITY	**6,460,499**	7,456,561

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

NOTES:

1 BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the Group's consolidated financial statement for the year ended 31 August 2020, but is derived from those financial statements.

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 (the "**Listing Rules**").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that contingent consideration, share-based payments, financial assets at fair value through profit or loss and derivative financial instruments are stated at their fair values.

Going concern assumption

As at 31 August 2020, the current liabilities of the Group exceeded their current assets by approximately $1,719 million. Included in the current liabilities were (i) current portion of contract liabilities of $707 million recognised under HKFRS 15 which will be gradually reduced through performance obligations being satisfied over the contract terms and (ii) current portion of lease liabilities of $234 million recognised under HKFRS 16 relating to leases with a lease term of more than 12 months and with a corresponding asset recorded in the non-current assets as right-of-use assets. Management of the Group anticipates the net cash inflows from their operations, together with the ability to draw down from available bank loan facilities, would be sufficient to enable the Group to meet their liabilities as and when they fall due. Accordingly, these consolidated financial statements has been prepared on a going concern basis.

2 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Overview (Continued)

HKFRS 16, Leases (Continued)

The Group has initially applied HKFRS 16 as from 1 September 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 September 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(b) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 September 2019. For contracts entered into before 1 September 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts

(ii) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to interests in leasehold land held for own use, properties leased for own use and telecommunication facilities and computer equipment.

At the date of transition to HKFRS 16 (i.e. 1 September 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 September 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.32%.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Changes in the accounting policies (Continued)

(ii) Lessee accounting and transitional impact (Continued)

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 August 2020; and

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as at 31 August 2019 to the opening balance for lease liabilities recognised as at 1 September 2019:

	1 September 2019 *$'000*
Operating lease commitments at 31 August 2019	531,771
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 August 2020	(12,660)
– non-lease component	(109,821)
Add: adjustments for reassessment of termination options of lease contracts	13,592
Add: finance lease liabilities recognised as at 1 September 2019	36,931
Add: leases committed but not commenced on 1 September 2019	(3,208)
	456,605
Less: total future interest expenses	(63,840)
Total lease liabilities recognised at 1 September 2019	392,765

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 August 2019.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Changes in the accounting policies (Continued)

(ii) Lessee accounting and transitional impact (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 August 2019 *$'000*	Capitalisation of operating lease contracts *$'000*	Carrying amount at 1 September 2019 *$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	4,341,590	(264,948)	4,076,642
Right-of-use assets	–	642,521	642,521
Other non-current assets	32,105	(3,818)	28,287
Total non-current assets	**18,634,897**	**373,755**	**19,008,652**
Other receivables, deposits and prepayments – current portion	240,894	(529)	240,365
Current assets	**1,747,127**	**(529)**	**1,746,598**
Lease liabilities – current portion	–	(91,647)	(91,647)
Current liabilities	**(1,745,124)**	**(91,647)**	**(1,836,771)**
Net current assets/(liabilities)	**2,003**	**(92,176)**	**(90,173)**
Total assets less current liabilities	**18,636,900**	**281,579**	**18,918,479**
Lease liabilities – long-term portion	–	(301,118)	(301,118)
Total non-current liabilities	**(11,180,339)**	**(301,118)**	**(11,481,457)**
Net assets	**7,456,561**	**(19,539)**	**7,437,022**
Reserves	7,456,429	(19,539)	7,436,890
Total equity attributable to equity shareholders of the Company	**7,456,561**	**(19,539)**	**7,437,022**
Total equity	**7,456,561**	**(19,539)**	**7,437,022**

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Changes in the accounting policies (Continued)

(iii) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 September 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated income statement, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result for the year ended 31 August 2020, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to the year ended 31 August 2020 instead of HKFRS 16, and by comparing these hypothetical amounts for 2020 with the actual 2019 corresponding amounts which were prepared under HKAS 17.

	2020				2019
	Amounts reported under HKFRS 16 (A)	**Add back: HKFRS 16 depreciation and interest expense (B)**	**Deduct: Estimated amounts related to operating leases as if under HKAS 17 (C)**	**Hypothetical amounts for 2020 as if under HKAS 17 (D=A+B+C)**	Compared to amounts reported for 2019 under HKAS 17
	$'000	***$'000***	***$'000***	***$'000***	*$'000*
Financial result for the year ended 31 August 2020 impacted by the adoption of HKFRS 16:					
Network costs and costs of sales	**(4,926,272)**	**51,306**	**(62,072)**	**(4,937,038)**	(1,834,054)
Other operating expenses	**(3,933,192)**	**186,513**	**(200,469)**	**(3,947,148)**	(2,734,600)
Finance costs	**(526,961)**	**28,463**	**–**	**(498,498)**	(259,271)
Profit before taxation	**92,102**	**266,282**	**(262,541)**	**95,843**	309,362
Profit for the year	**96,611**	**266,282**	**(262,541)**	**100,352**	214,527

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Changes in the accounting policies (Continued)

(iii) Impact on the financial result, segment results and cash flows of the Group (Continued)

	2020			2019
	Amounts reported under HKFRS 16 (A)	**Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B)**	**Hypothetical amounts for 2020 as if under HKAS 17 (C=A+B)**	Compared to amounts reported for 2019 under HKAS 17
	$'000	***$'000***	***$'000***	*$'000*
Line items in the consolidated cash flow statement for year ended 31 August 2020 impacted by the adoption of HKFRS 16:				
Cash generated from operations	**2,341,123**	**(239,554)**	**2,101,569**	1,469,569
Net cash generated from operating activities	**2,179,365**	**(239,554)**	**1,939,811**	1,352,173
Capital element of lease rentals paid	**(211,091)**	**211,091**	**–**	–
Interest element of lease rentals paid	**(28,463)**	**28,463**	**–**	–
Net cash used in financing activities	**(1,265,539)**	**239,554**	**(1,025,985)**	(511,054)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2020 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2020. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2020 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2020. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

(iv) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("**leasehold investment properties**"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 August 2019. Consequentially, these leasehold investment properties continue to be carried at fair value.

(v) Lessor accounting

In addition to leasing out the investment property referred to in paragraph d. above, the Group leases out a number of items of telecommunication facilities as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

3 REVENUE AND SEGMENT REPORTING

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

(a) Disaggregation of revenue

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

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

	2020	2019
	$'000	*$'000*
Disaggregated by major products or service lines:		
Fixed telecommunications network services	**4,686,640**	3,535,948
International telecommunications services	**1,058,131**	633,176
Other services	**501,885**	627,912
Fees from provision of telecommunications services	**6,246,656**	4,797,036
Product revenue	**2,297,822**	310,601
Technology solution and consultancy services	**848,164**	–
Revenue from contracts with customers within the scope of HKFRS 15	**9,392,642**	5,107,637
Rental income from leasing business	**60,315**	–
	9,452,957	5,107,637
Disaggregated by major categories:		
Residential Solutions revenue	**2,447,072**	2,472,707
Enterprise Solutions revenue	**4,708,063**	2,324,329
Enterprise Solutions related product revenue	**1,806,409**	–
Other product revenue	**491,413**	310,601
	9,452,957	5,107,637

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

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

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting

The Group's most senior executive management reviews the Group's internal reporting for the purposes of assessing the performance and allocates the resources of the Group by geographical location. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, the Group has presented the following two reportable segments following the acquisition of Jardine OneSolution Holdings (C.I.) Limited, Adura Hong Kong Limited and Adura Cyber Security Services Pte. Ltd. on 13 December 2019 and there is a change in the composition of segment reporting in the current year's financial statements. No operating segments have been aggregated to form the following reportable segments.

(i) Telecom and technology solutions (Hong Kong)

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

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

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

(iii) Segment results, assets and liabilities

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

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

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

In addition to receiving segment information concerning EBITDA, management is provided with segment information concerning inter segment sales, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation, capital expenditures and income tax. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 August 2020 and 2019 is set out below.

	Telecom and technology solutions (Hong Kong)		**Telecom and technology solutions (non-Hong Kong)**		**Total**	
	2020	2019 *(Note)*	**2020**	2019 *(Note)*	**2020**	2019 *(Note)*
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Disaggregated by timing of revenue recognition						
Point in time	**1,605,130**	310,601	**692,692**	–	**2,297,822**	310,601
Over time	**6,793,278**	4,793,061	**361,857**	3,975	**7,155,135**	4,797,036
Revenue from external customers	**8,398,408**	5,103,662	**1,054,549**	3,975	**9,452,957**	5,107,637
Inter-segment revenue	**10,961**	–	**320,273**	275,215	**331,234**	275,215
Reportable segment revenue	**8,409,369**	5,103,662	**1,374,822**	279,190	**9,784,191**	5,382,852
Reportable segment profit (EBITDA)	**2,628,210**	1,939,464	**(122,767)**	(230,116)	**2,505,443**	1,709,348
Interest income	**1,384**	2,610	**1,903**	1,473	**3,287**	4,083
Finance costs	**518,826**	259,271	**8,135**	–	**526,961**	259,271
Depreciation and amortisation during the year	**1,902,016**	1,118,864	**80,460**	4,649	**1,982,476**	1,123,513
Impairment loss on investment properties	**7,217**	–	**–**	–	**7,217**	–
Capital expenditure incurred during the year	**711,688**	640,476	**17,649**	5,603	**729,337**	646,079
Income taxes (credit)/charge	**(11,606)**	89,023	**7,097**	5,812	**(4,509)**	94,835

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(b).

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(c) Reconciliation between segment profit after taxation and profit for the year

	2020	2019
		(Note)
	$'000	*$'000*
Reportable segment profit derived from Group's external customers	**2,505,443**	1,709,348
Finance costs	**(526,961)**	(259,271)
Interest income	**3,287**	4,083
Depreciation	**(974,267)**	(534,758)
Amortisation of intangible assets	**(609,895)**	(283,776)
Amortisation of customer acquisition and retention costs	**(291,719)**	(240,793)
Impairment loss on investment properties	**(7,217)**	–
Transaction costs in connection with business combination	**(6,569)**	(85,471)
Consolidated profit before taxation	**92,102**	309,362

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

(d) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, property, plant and equipment, right-of-use assets, intangible assets, goodwill, customer acquisition and retention costs, contract assets, interests in joint ventures and an associate, finance lease receivables and other non-current assets ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets, goodwill, customer acquisition and retention costs, contract assets and other non-current assets and the location of operations, in the case of interests in joint ventures and an associate.

	Revenues from external customers		**Specified non-current assets**	
	2020	2019	**2020**	2019
		(Note)		*(Note)*
	$'000	*$'000*	***$'000***	*$'000*
Hong Kong (place of domicile)	**8,398,408**	5,103,662	**18,940,799**	18,622,964
Mainland China	**403,652**	3,975	**91,819**	11,933
Singapore	**293,122**	–	**77,563**	–
Other territories	**357,775**	–	**9,259**	–
	1,054,549	3,975	**178,641**	11,933
	9,452,957	5,107,637	**19,119,440**	18,634,897

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

4 PROFIT BEFORE TAXATION

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

	Year ended 31 August 2020 $'000	31 August 2019 $'000
(a) Other net income		
Interest income	**(3,287)**	(4,083)
Net foreign exchange gain	**(30,246)**	(3,484)
Amortisation of obligations under granting of rights	**(9,024)**	(9,024)
Change in fair value of contingent consideration	**1,355**	1,542
Fair value loss on currency swap	**16,699**	–
Discounts on early settlement to suppliers	**(411)**	–
Loss on derecognition of contingent consideration	**14,624**	–
Impairment loss on investment properties	**7,217**	–
Fair value gain on financial assets	**(186)**	–
Other income	**(22,553)**	(14,877)
	(25,812)	(29,926)
(b) Other operating expenses		
Advertising and marketing expenses	**397,121**	373,137
Depreciation		
– Property, plant and equipment	**728,424**	527,428
– Investment properties	**8,024**	7,330
– Right-of-use assets	**186,513**	–
Loss on disposal of property, plant and equipment, net	**4,889**	119
Gain on disposal of right-of-use assets, net	**(6,086)**	–
Recognition of loss allowance on trade receivables and contract assets	**80,292**	52,759
Talents costs *(note 4(c))*	**1,068,374**	693,104
Amortisation of intangible assets	**601,236**	276,355
Amortisation of customer acquisition and retention costs	**291,719**	240,793
Transactions costs in connection with business combination	**6,569**	75,608
Transactions costs in connection with proposed business combination	**–**	9,863
Loss on disposal of subsidiaries	**1,301**	–
Others	**564,816**	478,104
– Office rental and utilities*	**84,131**	158,820
– Site expenses	**86,184**	95,915
– Bank handling charges	**40,105**	34,044
– Maintenance	**137,023**	101,213
– Subscription and license fees	**82,328**	9,348
– Legal and professional fees	**33,131**	13,585
– Printing, telecommunication and logistics expenses	**44,495**	20,811
– Others	**57,419**	44,368
	3,933,192	2,734,600

* *Note:* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 September 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 September 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

4 PROFIT BEFORE TAXATION (CONTINUED)

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

(c) Talents costs

	Year ended 31 August 2020 $'000	31 August 2019 $'000
Salaries, wages and other benefits	**1,729,313**	1,137,395
Contributions to defined contribution retirement plan	**117,788**	71,685
Equity-settled share-based payment expenses	**1,453**	3,099
Cash-settled share-based payment expenses	**929**	797
	1,849,483	1,212,976
Less: Talent costs capitalised as property, plant and equipment	**(59,821)**	(45,133)
Talent costs included in advertising and marketing expenses and amortisation of customer acquisition and retention costs	**(421,127)**	(474,739)
	1,368,535	693,104
Talent costs included in other operating expenses	**1,068,374**	693,104
Talent costs included in network costs and costs of sales	**300,161**	–
	1,368,535	693,104

In 2020, the Group successfully applied for talent-related funding support from the Hong Kong SAR Government, the Macau SAR Government and all regions/countries where the Group operates ("**the Funds**") of $105,429,000, of which $92,931,000 was passed on to the eligible Talents up to 31 August 2020. The Funds is for providing time-limited financial support to employers to retain their employees with the operating pressure caused by the novel coronavirus epidemic.

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

(d) Finance costs

	2020	2019
Interest and finance charges on bank loans	**196,394**	134,909
Interest on other borrowings	**112**	–
Interest and finance charges on senior notes	**256,280**	103,424
Interest on interest-rate swap, net	**1,336**	8,850
Interest on lease liabilities	**28,463**	–
Interest on other liabilities	**845**	–
Loss on extinguishment of senior notes	**43,595**	–
Fair value (gain)/loss on interest-rate swap	**(64)**	12,088
	526,961	259,271

4 PROFIT BEFORE TAXATION (CONTINUED)

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

(e) Other items

	Year ended 31 August 2020 $'000	31 August 2019 $'000
Amortisation of intangible assets	**716,490**	347,962
Depreciation		
– Property, plant and equipment	**728,424**	527,428
– Investment properties	**8,024**	7,330
– Right-of-use assets	**237,819**	–
Rental charges		
– Telecommunications facilities and computer equipment	**443,069**	343,699
– Land and buildings	**–**	92,783
Lease expenses relating to short-term leases, in respect of:		
– Land and buildings	**18,454**	–
Auditor's remuneration		
– Audit services	**10,810**	5,665
– Review services	**945**	635
– Tax services	**671**	210
– Other services	**10,606**	3,850
Recognition of loss allowance on trade receivables and contract assets	**80,292**	52,759
Research and development costs	**31,835**	28,076
Rental receivable from investment properties less direct outgoings $820,000 (2019: $778,000)	**(4,835)**	(1,910)
Cost of inventories	**1,982,902**	288,782
Write down of inventories	**1,240**	–

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 September 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 September 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

5 INCOME TAX (CREDIT)/CHARGE

	Year ended 31 August 2020 $'000	31 August 2019 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**179,317**	146,864
Under/(over)-provision in respect of prior years	**15,320**	(51)
Current tax – Outside Hong Kong		
Provision for the year	**8,588**	5,812
Over-provision in respect of prior years	**(2,339)**	–
Deferred tax		
Origination and reversal of temporary differences	**(205,395)**	(57,790)
Tax (credit)/expense	**(4,509)**	94,835

5 INCOME TAX (CREDIT)/CHARGE (CONTINUED)

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first $2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2019.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $97,174,000 (2019: $214,527,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,310,544,000 ordinary shares (2019: 1,106,828,000 ordinary shares) which is calculated as follows:

	Year ended	
	31 August 2020	31 August 2019
	'000	*'000*
Issued ordinary shares at 1 September	**1,311,599**	1,005,666
Less: shares held for the Co-Ownership Plan II	**(5,666)**	(5,666)
Add: effect of the Co-Ownership Plan II RSUs vested	**4,611**	3,733
Add: effect of issue of new shares	**–**	103,095
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,310,544**	1,106,828

(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 $97,174,000 (2019: $214,527,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II after adjusting for the dilutive effect of the Company's Co-Ownership Plan II and the Vendor Loan Notes, calculated as follows:

	Year ended	
	31 August 2020	31 August 2019
	'000	*'000*
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,310,544**	1,106,828
Add: effect of the Co-Ownership Plan II	**270**	269
Add: effect of the Vendor Loan Notes	**167,322**	56,385
Weighted average number of ordinary shares (diluted)	**1,478,136**	1,163,482

7 BUSINESS COMBINATION, ACQUISITION OF A SUBSIDIARY, DISPOSAL OF SUBSIDIARIES AND ACQUISITION OF NON-CONTROLLING INTERESTS WITHOUT CHANGE IN CONTROL

a. Business combination during the year ended 31 August 2020

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

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

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

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

	$'000
Intangible assets	198,566
Property, plant and equipment	45,447
Right-of-use assets	199,704
Deferred tax assets	13,313
Inventories	125,993
Contract assets	50,157
Trade receivables	750,265
Other receivables, deposits and prepayments	150,191
Finance lease receivables	2,596
Tax recoverable	717
Cash and cash equivalents	68,433
Trade payables	(322,508)
Other payables and accrued charges	(268,483)
Provision for other liabilities and charges	(14,899)
Contingent consideration	(4,372)
Contract liabilities	(297,189)
Bank borrowings	(267,464)
Tax payables	(2,615)
Lease liabilities	(237,112)
Deferred tax liabilities	(29,112)
Fair value of net assets acquired	161,628
Non-controlling interests	1,684
	163,312
Goodwill	228,188
Total consideration	391,500
Cash consideration paid	391,500
Cash and cash equivalents acquired	(68,433)
Net cash outflow in respect of the JOS Acquisition during the year ended 31 August 2020	323,067

7 BUSINESS COMBINATION, ACQUISITION OF A SUBSIDIARY, DISPOSAL OF SUBSIDIARIES AND ACQUISITION OF NON-CONTROLLING INTERESTS WITHOUT CHANGE IN CONTROL (CONTINUED)

a. Business combination during the year ended 31 August 2020 (Continued)

Acquisition-related costs

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

Revenue and profit contribution

The revenue and profit after taxation of $2,527,341,000 and $37,680,000 respectively included in the consolidated income statement were contributed by HKBN JOS from the date of the JOS Acquisition to 31 August 2020.

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

b. Business combination during the year ended 31 August 2019

Pursuant to the share purchase agreement dated 7 August 2018, MLCL, acquired 100% equity interests in WTT Holding Corp, a company incorporated in the Cayman Islands, and its subsidiaries (together referred as "**WTT Group**") from TPG Wireman and Twin Holding (the "**WTT Acquisition**"). The consideration of the WTT Acquisition was settled by (i) allotment and issuance of 305,932,690 of the Company's shares and (ii) issuance of the Vendor Loan Notes in the principal amount of $1,940,937,656.

WTT Group is principally engaged in the provision of telecommunication services to business communications market primarily in Hong Kong through its wholly-owned subsidiary in Hong Kong, namely HKBN Enterprise Solutions HK Limited ("**HKBNESHKL**") (formerly known as WTT HK Limited). HKBNESHKL is an enterprise-focused fixed telecommunication services operator with significant fixed line infrastructure in Hong Kong, and over 20 years' track record of serving local and international businesses. The WTT Acquisition was completed on 30 April 2019.

	$'000
Consideration transferred:	
Allotment and issuance of new ordinary shares of the Company *(note (a))*	4,295,295
Issuance of the Vendor Loan Notes *(note (b))*	2,349,204
Aggregate consideration	6,644,499
Add: fair value of net liabilities acquired	342,427
Goodwill on the WTT Acquisition	6,986,926

7 BUSINESS COMBINATION, ACQUISITION OF A SUBSIDIARY, DISPOSAL OF SUBSIDIARIES AND ACQUISITION OF NON-CONTROLLING INTERESTS WITHOUT CHANGE IN CONTROL (CONTINUED)

b. Business combination during the year ended 31 August 2019 (Continued)

Note (a): The fair value of the ordinary shares of the Company issued as consideration is determined by reference to the quoted market price of $14.04 per each of the ordinary shares of the Company at the date of completion of the WTT Acquisition.

Note (b): The Vendor Loan Notes may be converted into new ordinary shares to be issued by the Company at initial conversion price of $11.60 per share pursuant to the terms and conditions of the Vendor Loan Notes. At the date of completion of the WTT Acquisition based on the initial conversion price, the Vendor Loan Notes are convertible to 167,322,212 ordinary shares of the Company. Therefore, the fair value of the Vendor Loan Notes has been determined by reference to the quoted market price of $14.04 per each of the ordinary shares of the Company at the date of completion of the WTT Acquisition.

The goodwill reflects synergies expected from leveraging network of the WTT Group and expected efficiencies from the combined company that will make the combined business a more efficient and effective competitor in Hong Kong. None of the goodwill is expected to be deductible for tax purposes.

The WTT Acquisition had the following effect on the Group's assets and liabilities on 30 April 2019, the completion date of the WTT Acquisition:

	$'000
Intangible assets	3,533,017
Property, plant and equipment	1,834,490
Customer acquisition and retention costs	173,166
Other non-current assets	23,668
Inventory	9,425
Trade receivables	306,675
Other receivables, deposits and prepayments	88,625
Contract assets	70,571
Cash and cash equivalents	355,172
Trade payables	(75,890)
Other payables and accrued charges – current portion	(494,994)
Contract liabilities – current portion	(136,528)
Deposits received	(2,703)
Tax payable	(13,835)
Contract liabilities – non-current portion	(99,192)
Deferred tax liabilities	(714,499)
Provision for reinstatement costs	(36,402)
Senior notes	(5,163,193)
Fair value of net liabilities acquired	(342,427)
Goodwill	6,986,926
Total consideration	6,644,499
Cash consideration paid	–
Cash and cash equivalents acquired	(355,172)
Net cash inflow in respect of the WTT Acquisition during the year ended 31 August 2019	(355,172)

7 BUSINESS COMBINATION, ACQUISITION OF A SUBSIDIARY, DISPOSAL OF SUBSIDIARIES AND ACQUISITION OF NON-CONTROLLING INTERESTS WITHOUT CHANGE IN CONTROL (CONTINUED)

b. Business combination during the year ended 31 August 2019 (Continued)

Acquisition-related costs

Acquisition-related costs of approximately $Nil and $75,608,000 were included in other operating expenses in the consolidated income statement for the years ended 31 August 2020 and 2019.

Revenue and profit contribution

The revenue and loss after taxation of $708,411,000 and $15,358,000 respectively included in the consolidated income statement were contributed by WTT Group from the date of the WTT Acquisition to 31 August 2019.

No separate sets of financial information for WTT Group were prepared for the period from 1 September 2018 to the date of the WTT Acquisition. As a result, it is impracticable for the Group to disclose the amounts of revenue and profit or loss after taxation of WTT Group as if the acquisition date for the business combination that occurred during the year had been as of 1 September 2018.

c. Acquisition of a subsidiary during the year ended 31 August 2019

On 26 September 2018 ("**CTL Acquisition date**"), HKBNGL acquired the entire interest of COSMO TRUE LIMITED ("**CTL**") which is principally engaged in property investment in Hong Kong at a cash consideration of $329,219,000 ("**CTL Acquisition**").

The CTL Acquisition would help the Group to secure the location site of its own network centres, which save future rental expenses and avoid the need for relocation.

The major assets of CTL are property, plant and equipment which are leased by the Group, and accordingly, the transaction has been accounted as the acquisition of assets.

The following table summarises the consideration paid for CTL, the fair values of assets acquired and liabilities assumed at CTL Acquisition date.

	$'000
Cash consideration	329,219
Identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	329,295
Prepayments, deposits and other receivables	439
Trade receivables	631
Other payables and accruals	(132)
Deferred tax liabilities	(1,014)
Total identifiable net assets	329,219

An analysis of net cash outflow in respect of CTL Acquisition is as follows:

Total consideration	329,219
Deposits paid as at 31 August 2018	(32,829)
Net cash outflow in respect of CTL Acquisition for the year ended 31 August 2019	296,390

7 BUSINESS COMBINATION, ACQUISITION OF A SUBSIDIARY, DISPOSAL OF SUBSIDIARIES AND ACQUISITION OF NON-CONTROLLING INTERESTS WITHOUT CHANGE IN CONTROL (CONTINUED)

d. Disposal of WTT Outsourcing Services Limited and its subsidiaries (together the "WTTO Group") during the year ended 31 August 2020

In December 2019, the Group entered into a sale and purchase agreement ("**SPA**") pursuant to which the Group has agreed to sell the entire issued share capital of WTT Outsourcing Services Limited, an indirect wholly owned subsidiary of the Company, with a consideration of $2,500,000 to an independent third party. The transaction was completed in January 2020, the consideration of $1,000,000 was settled during the current year and the remaining balance will be settled on or before 31 December 2021 in accordance with the SPA.

Details of net assets disposed of and the gain on disposal of interests in the WTTO Group at the date of disposal were as follows:

	$'000
Cash consideration	2,500
Less: Carrying amount of net assets disposed of	(2,926)
Exchange loss on translating foreign operations transferred to consolidated income statement upon disposal	(875)
Loss on disposal recognised in the consolidated income statement	(1,301)

The assets and liabilities of the WTTO Group at the date of disposal were as follows:

	$'000
Property, plant and equipment	819
Trade receivables	1,616
Other receivables, deposits and prepayments	749
Other payables and accrued charges	(258)
Net assets disposed of	2,926

e. Acquisition of non-controlling interests without change in control during the year ended 31 August 2020

On 23 July 2020, the Group acquired the remaining 25% of the issued shares of JOS Applications (S) Pte. Ltd. held by the non-controlling interests at a consideration of $2,525,000 by the way of waiving the receivables due from MUU Consulting Pte Ltd. Immediately prior to the purchase, the carrying amount of the 25% non-controlling interests in JOS Applications (S) Pte. Ltd. was in a deficit of $2,247,000. The Group recognised the same amount in non-controlling interests and a decrease in retained profits of $4,772,000.

	$'000
Carrying amount of non-controlling interests acquired	(2,247)
Consideration paid to non-controlling interests	(2,525)
Decrease in retained profits	(4,772)

8 TRADE RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 31 August 2020 *$'000*	At 31 August 2019 *$'000*
Within 30 days	**369,211**	217,558
31 to 60 days	**360,870**	113,655
61 to 90 days	**197,973**	59,638
Over 90 days	**428,881**	166,588
	1,356,935	557,439

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.

9 TRADE PAYABLES

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	At 31 August 2020 *$'000*	At 31 August 2019 *$'000*
Within 30 days	**310,318**	124,247
31 to 60 days	**139,566**	46,783
61 to 90 days	**137,134**	35,734
Over 90 days	**243,787**	159,212
	830,805	365,976

10 DIVIDENDS

(a) Dividend payable to equity shareholders of the Company attributable to the year

	Year ended 31 August 2020 $'000	31 August 2019 $'000
Interim dividend declared and paid of 37 cents per ordinary share (2019: 34 cents per ordinary share)	**485,292**	445,944
Final dividend proposed after the end of the reporting period of 38 cents per ordinary share (2019: 36 cents per ordinary share)	**498,408**	472,176
	983,700	918,120

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.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	Year ended 31 August 2020 $'000	31 August 2019 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 36 cents per ordinary share (2019: 30 cents per ordinary share)	**472,176**	310,700