HONG KONG BROADBAND NETWORK

HKBN Ltd.
香港寬頻有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1310

1310

Interim Report | 2015

BROADBAND THE WAY IT SHOULD BE.

The Story of 1310

On the road to a public listing, HKBN has taken a different path. Instead of the fairly standard approach of incurring HK$1 million for picking a "lucky" stock code, we decided to inject a similar sum into an impactful social investment project decided via consensus by our Talents, with a view to creating long-term social value for Hong Kong.

The number we drew from ballot at the Stock Exchange of Hong Kong was 1310. This sent us jumping for joy.

So what does 1310 mean? 1310 nanometres is the wavelength of light that travels through fibre optics.

1310 is an incredible number that embodies HKBN's commitment to bring innovative, disruptive fibre technology to empower everyday life. Our relentless effort to optimise performance has helped propel Hong Kong to top the world in Average Peak Connection Speeds* – an achievement that speaks loudly about HKBN's passion to deliver the very best fibre broadband to our home, Hong Kong.

At HKBN, we carry this 1310 stock code with pride.

* *According to the latest figures from Akamai's State of the Internet Report, 4th Quarter, 2014*

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Where the English and the Chinese texts conflicts, the English text prevails

CORPORATE INFORMATION

CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR
Bradley Jay HORWITZ [2,4]

EXECUTIVE DIRECTORS
William Chu Kwong YEUNG [3]
Ni Quiaque LAI

NON-EXECUTIVE DIRECTOR
Roy KUAN [2,4,6]

INDEPENDENT NON-EXECUTIVE DIRECTORS
Stanley CHOW [2,4,5]
Quinn Yee Kwan LAW, SBS, JP [1,4,6]

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

COMPANY SECRETARY
King Chiu LEUNG

AUTHORISED REPRESENTATIVES
Ni Quiaque LAI
King Chiu LEUNG

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COMPANY'S WEBSITE
www.hkbnltd.net

STOCK CODE
1310

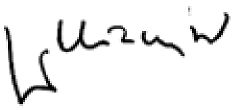
SHAREHOLDER LETTER

Dear Fellow Shareholders,

A strong conviction to core purpose and management credo is vital to our long-term growth.

Please admonish us if we are not genuinely acting towards our core purpose of "Make our Hong Kong a better place to live".

Please admonish me if I am not living my management credo of "G.O.D. — Give (instead of take), Objectivity (in making decisions) and Daddy (priority of family before work)".



William Chu Kwong YEUNG
Chief Executive Officer & Co-Owner

With our March 2015 IPO comes great privilege and responsibility. We are one of the few listed companies in Hong Kong that is not controlled by a family office. As a management team with only a small minority ownership of the company, we are true custodians on behalf of our distributed shareholder base.

Our management ethos is based on "Distributed Value Creation", centered on creating value for customers by offering disruptive benefits. We believe that if we can WOW our customers, our shareholders and ourselves as Co-Owners, we will do very well over time.

Our strategy is to remain focused on doing what we are KickAss good at doing, which is to provide the best "Big Fat Dumb Pipes" and to embrace other partners to fill our pipes in order to deliver the ultimate experience to our customers. For example, there are far better content providers around world with far greater scale and expertise than us, which is why we are scaling down our own IP-TV business in favor of embracing the global over-the-top partners.

Ni Quiaque LAI
Head of Talent Engagement, Chief Financial Officer & Co-Owner

Hong Kong, 29 April 2015

OUR HIGHLIGHTS AT A GLANCE

FINANCIAL HIGHLIGHTS

10%
YoY increase in
TURNOVER
HK$1,126 million

15%
YoY increase in
EBITDA
HK$482 million

29%
YoY increase in
ADJUSTED NET PROFIT
HK$160 million

GROWTH IN BROADBAND SUBSCRIPTIONS

(for the six months ended 28 February 2015)

30,000
additional subscriptions

722,000 total
Residential Broadband subscriptions

3,000
additional subscriptions

31,000 total
Enterprise Broadband subscriptions

OUR EXTENSIVE COVERAGE

(as of 28 February 2015)

Reaching over
2.1 million homes passed,

Representing about
79% of Hong Kong's total residential units,

and over
1,900 commercial buildings

MANAGEMENT'S DISCUSSION AND ANALYSIS

KEY FINANCIAL AND OPERATIONAL SUMMARY

Table 1: Financial highlights

	For the six months ended 28 February 2015	2014	Increase/ (Decrease) YoY
Key financials (HK$'000)			
Turnover	**1,126,111**	1,020,739	+10%
(Loss)/profit for the period	**(46,688)**	10,887	n/a
Adjusted Net Profit [1,2]	**159,559**	124,022	+29%
EBITDA [1,3]	**482,240**	417,736	+15%
EBITDA margin [1,4]	**42.8%**	40.9%	+1.9 pp
Adjusted Free Cash Flow [1,5]	**184,748**	178,084	+4%

Reconciliation of Adjusted Net Profit [1,2]

	2015	2014
(Loss)/profit for the period	**(46,688)**	10,887
Amortisation of intangible assets	**55,083**	131,833
Deferred tax arising from amortisation of intangible assets	**(9,089)**	(21,752)
Loss on extinguishment of senior notes	**96,234**	3,054
Originating fee for banking facility expired	**11,600**	–
Listing expenses	**52,419**	–
Adjusted Net Profit	**159,559**	124,022

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

	2015	2014
(Loss)/profit for the period	**(46,688)**	10,887
Finance costs	**198,501**	96,193
Interest income	**(1,909)**	(1,361)
Income tax	**41,141**	22,393
Depreciation	**183,693**	157,791
Amortisation of intangible assets	**55,083**	131,833
Listing expenses	**52,419**	–
EBITDA	**482,240**	417,736
Capital expenditure	**(120,549)**	(132,522)
Net interest paid	**(87,027)**	(84,887)
Other non-cash items	**(4,512)**	(4,512)
Income tax paid	**(84,491)**	(40,540)
Changes in working capital	**(913)**	22,809
Adjusted Free Cash Flow	**184,748**	178,084

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2: Operational highlights

	For the six months ended			Increase/
	28 February 2015	31 August 2014	28 February 2014	**(Decrease) YoY**
Key operational statistics				
Residential homes passed ('000)	**2,119**	2,088	2,057	+3%
Residential broadband				
– Subscriptions ('000)	**722**	692	662	+9%
– Market share [6]	**35.4%**	34.2%	33.0%	+2.4 pp
– Churn rate [7]	**0.6%**	0.7%	1.0%	–0.4 pp
Residential ARPU [8]	**HK$184**	HK$181	HK$173	+6%
Commercial building coverage ('000)	**2.0**	1.9	1.9	+5%
Enterprise broadband				
– Subscriptions ('000)	**31**	28	26	+19%
– Market share [6]	**13.1%**	12.0%	11.6%	+1.5 pp
– Churn rate [9]	**0.8%**	1.2%	1.1%	–0.3 pp
Enterprise ARPU [10]	**HK$1,025**	HK$1,036	HK$1,053	–3%
Enterprise customers ('000)	**35**	32	30	+17%

Notes:

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

(2) Adjusted Net Profit means (loss)/profit for the period plus amortisation of intangible assets (net of deferred tax credit), non-recurring finance costs and other non-recurring items. Non-recurring finance costs, in the period under review, include loss on extinguishment of senior notes and originating fee for banking facility expired. Other non-recurring items, in the period under review, include listing expenses.

(3) EBITDA means (loss)/profit for the period plus finance costs, income tax expense, listing expenses, depreciation and amortisation of intangible assets and less interest income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(4) EBITDA margin means EBITDA divided by turnover.

(5) Adjusted Free Cash Flow means EBITDA plus interest received and less capital expenditure, interest paid and tax paid, and adjusted by changes in working capital, other non-recurring items and other non-cash items. Working capital includes other non-current assets, inventories, accounts receivable, other receivables, deposits and prepayments, accounts payable, deposits received and deferred services revenue. Other non-cash items, in the period under review, include amortisation of obligations under granting of rights.

(6) Our market share in residential or enterprise broadband services in Hong Kong is calculated by dividing the number of residential or enterprise broadband subscriptions we have at a given point in time by the total number of residential or enterprise broadband subscriptions recorded by the Office of the Communications Authority (OFCA) at the same point in time.

(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 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, 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 turnover generated from all services subscribed by residential broadband subscribers. We believe this gives us a better tool for observing the performance of our business as we track our residential ARPU on a bundled rather than standalone basis.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 28 February 2015, the Group delivered a solid set of operational and financial results, forming a foundation for growth in both residential and enterprise businesses.

- Turnover grew by 10% year-on-year to HK$1,126 million driven by strong growth in broadband subscriptions and gains in market share for both residential and enterprise businesses.

  - Residential revenue grew by 9% year-on-year to HK$872 million as we continued to gain market share within the residential broadband market mainly by converting our competitors' legacy copper-based customers to our fibre-based services. During the six months ended 28 February 2015, we achieved 30,000 net additions to 722,000 residential broadband subscriptions together with a 6% year-on-year increase in residential ARPU to HK$184. Our market share by broadband subscriptions increased to 35.4% as of 28 February 2015, up from 33.0% as of 28 February 2014.

  - Enterprise revenue grew by 10% year-on-year to HK$229 million as the enterprise business continued to build on positive momentum with our focus in the small and medium-sized enterprise (SME) segment and developing a comprehensive set of service offerings to serve these customers. During the six months ended 28 February 2015, we achieved 3,000 net additions to enterprise customers to 35,000 which more than offset a 3% year-on-year decrease in enterprise ARPU to HK$1,025. Our market share by broadband subscriptions increased to 13.1% as of 28 February 2015, up from 11.6% as of 28 February 2014.

- Network costs and costs of sales dropped by 2% year-on-year to HK$129 million from HK$132 million mainly due to lower IP-TV content costs as we continue to scale down this operation.

- Other operating expenses increased by 6% year-on-year to HK$814 million from HK$765 million. Excluding the impact of listing expenses of HK$52 million, other operating expenses remained stable as the increase in advertising and marketing expenses, depreciation and Talent costs for driving business growth was offset by the decrease in amortisation of intangible assets.

- Finance costs increased by 106% year-on-year to HK$199 million from HK$96 million mainly due to the one-off finance costs of HK$108 million relating to the refinancing of 5.25% senior notes, comprising the loss on extinguishment of senior notes of HK$96 million and originating fee for banking facility expired of HK$12 million. On 19 January 2015, the Group drew down a five-year bank loan of HK$3,100 million bearing interest at HIBOR plus 2.06% per annum to finance the redemption of the remaining 5.25% senior notes in full. This refinancing improved the Group's debt maturity profile with a two-year time extension and offered the Group an opportunity to achieve long term savings in borrowing costs. The Group entered into an interest rate swap arrangement with the notional amount of HK$2,635 million for a term of 3.5 years commencing from 23 February 2015, fixing the HIBOR interest rate exposure at 1.453% per annum during the period covered by the interest rate swap. Under the current hedging arrangement, 85% of the bank loan will effectively bear interest at a fixed rate of 3.513% per annum whereas the remaining 15% will bear interest at a floating rate of HIBOR plus 2.06% per annum, as compared to the interest rate of 5.25% per annum for the senior notes redeemed.

- Income tax amounted to HK$41 million for the period, as compared to HK$22 million for the corresponding period last year, as the listing expenses and refinancing costs were not tax deductible.

- Amid the impact of one-off finance costs related to refinancing of HK$108 million and listing expenses of HK$52 million, collectively HK$160 million, the Group reported a loss of HK$47 million for the six months ended 28 February 2015 as compared to a profit of HK$11 million for the corresponding period last year. The refinancing served to improve the debt maturity profile of the Group and lower its long term borrowing costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Adjusted Net Profit, excluding the impact of amortisation of intangible assets, non-recurring finance costs and non-recurring items, increased by 29% year-on-year to HK$160 million.

- EBITDA rose by 15% year-on-year to HK$482 million, with EBITDA margin improved to 42.8% from 40.9% in the corresponding period last year.

- Adjusted Free Cash Flow increased by 4% year-on-year to HK$185 million amid an increase in income tax paid and a swing in working capital.

- Additions to fixed assets amounted to HK$165 million for the six months ended 28 February 2015, as compared to HK$133 million for the corresponding period last year.

OUTLOOK

We will strive to harvest our substantially invested network and leverage our comprehensive suite of service offerings to drive sustainable growth in revenue, EBITDA and Adjusted Free Cash Flow through the following initiatives:

- Continue to cultivate a Talent-oriented Co-Ownership culture that align risks and rewards with shareholders by enlarging the base of Co-Owners via the new Co-Ownership Plan II which will be launched soon;

- Expand our network coverage by focusing on economically attractive residential premises and commercial buildings;

- Enhance our customer yield through segmentation and up-selling;

- Further penetrate the enterprise market with a strong focus on small businesses; and

- Enhance our EBITDA margin through operating leverage and effective cost management.

LIQUIDITY AND CAPITAL RESOURCES

As at 28 February 2015, the Group had total cash and cash equivalents amounting to HK$353 million (31 August 2014: HK$436 million) and outstanding borrowing of HK$3,010 million (31 August 2014: HK$2,994 million), which led to a net debt position of HK$2,657 million (31 August 2014: HK$2,558 million). The Group's gearing ratio, which was expressed as a percentage of the gross debt over total equity, was 221% as at 28 February 2015 (31 August 2014: 182%).

On 19 January 2015, the Group drew down a five-year bank loan of HK$3,100 million bearing interest rate at HIBOR plus 2.06% per annum, in order to finance the redemption of the remaining 5.25% senior notes in full. Since the bank loan is repayable in full upon final maturity, the Group can either refinance or renew it on maturity or earlier through sources that it deems appropriate at that time. This provides us with flexibility to plan for various sources of financing arrangement to support the expansion of our business.

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 28 February 2015 and 31 August 2014. As at 28 February 2015, the Group had an undrawn revolving credit facility of HK$200 million (31 August 2014: HK$100 million).

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the financial year ending 31 August 2015 with internal resources and available banking facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

HEDGING

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

In connection with the existing bank loan, the Group entered into an interest rate swap arrangement with the notional amount of HK$2,635 million with an international financial institution for a term of 3.5 years commencing from 23 February 2015. Under the current hedging arrangement, the Group fixed the HIBOR interest rate exposure at 1.453% per annum during the period covered by the interest rate swap.

CHARGE ON GROUP ASSETS

As of 28 February 2015 and 31 August 2014, no assets of the Group were pledged to secure its loans and banking facilities.

CONTINGENT LIABILITIES

As at 28 February 2015, the Group had total contingent liabilities of HK$5 million (31 August 2014: HK$5 million) in respect of bank guarantees provided to suppliers and utility vendors in lieu of payment of utility deposits.

EXCHANGE RATES

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

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 28 February 2015, the Group did not make any significant investments, acquisitions or disposals in relation to its subsidiaries and associated companies. As at 28 February 2015, the Group has not entered into any legally binding agreement or arrangement with respect to any investment opportunities except those disclosed in the listing prospectus dated 27 February 2015.

TALENT REMUNERATION

As at 28 February 2015, the Group had 2,351 permanent full-time Talents versus 2,596 as of 31 August 2014. 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 programs during the current financial period under review.

To attract, retain and motivate skilled and experienced Talents, the Company adopted a Co-Ownership Plan II (the "**Plan**") on 21 February 2015. Please refer to "Share Incentive Scheme" on page 33 for a summary of the Plan.

REVIEW REPORT

REVIEW REPORT
TO THE BOARD OF DIRECTORS OF HKBN LTD.
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 31 which comprises the consolidated balance sheet of HKBN Ltd. (the "Company") as of 28 February 2015 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 28 February 2015 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

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

29 April 2015

CONSOLIDATED INCOME STATEMENT

For the six months ended 28 February 2015 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 28 February 2015 $'000	28 February 2014 $'000
Turnover	4	**1,126,111**	1,020,739
Other net income	5(b)	**9,841**	5,910
Network costs and costs of sales		**(128,851)**	(131,738)
Other operating expenses	5(a)	**(814,147)**	(765,438)
Finance costs	5(c)	**(198,501)**	(96,193)
(Loss)/profit before taxation	5	**(5,547)**	33,280
Income tax	6	**(41,141)**	(22,393)
(Loss)/profit for the period attributable to equity shareholders of the Company		**(46,688)**	10,887
(Loss)/earnings per share	7		
Basic and diluted		**(4.7) cents**	1.1 cents

The notes on pages 20 to 31 form part of this interim financial report. Details of dividend payable to the former immediate holding company of the Group are set out in note 14(a).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 28 February 2015 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended	
	28 February 2015 $'000	28 February 2014 $'000
(Loss)/profit for the period	**(46,688)**	10,887
Other comprehensive income for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, with nil tax effect	**(2,065)**	(995)
Total comprehensive income for the period attributable to equity shareholders of the Company	**(48,753)**	9,892

The notes on pages 20 to 31 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 28 February 2015 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 28 February 2015 $'000	At 31 August 2014 $'000
Non-current assets			
Goodwill		**1,594,110**	1,594,110
Intangible assets		**1,385,585**	1,440,668
Fixed assets	8	**1,937,114**	1,957,006
Other non-current assets		**12,805**	9,252
		4,929,614	5,001,036
Current assets			
Inventories		**12,565**	21,680
Accounts receivable	9	**88,315**	79,995
Other receivables, deposits and prepayments	9	**213,523**	181,084
Cash and cash equivalents	10	**352,752**	435,630
		667,155	718,389
Current liabilities			
Accounts payable	11	**10,654**	11,611
Other payables and accrued charges	11	**274,537**	306,625
Deposits received		**30,903**	32,021
Deferred services revenue – current portion		**65,266**	84,399
Obligations under granting of rights – current portion		**9,024**	9,024
Dividend payable to the former immediate holding company	14(a)	**230,158**	–
Contingent consideration – current portion		**3,215**	6,145
Tax payable		**83,197**	102,523
		706,954	552,348
Net current (liabilities)/assets		**(39,799)**	166,041
Total assets less current liabilities		**4,889,815**	5,167,077

CONSOLIDATED BALANCE SHEET (Continued)

At 28 February 2015 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 28 February 2015 $'000	At 31 August 2014 $'000
Non-current liabilities			
Derivative financial instrument		**13,206**	–
Deferred services revenue – long-term portion		**12,491**	7,932
Obligations under granting of rights – long-term portion		**56,403**	60,915
Deferred tax liabilities		**433,873**	457,897
Contingent consideration – long-term portion		**–**	3,430
Senior notes	13	**–**	2,994,058
Bank loan	12	**3,009,908**	–
		3,525,881	3,524,232
NET ASSETS		**1,363,934**	1,642,845
CAPITAL AND RESERVES	14		
Share capital		**100**	8
Reserves		**1,363,834**	1,642,837
TOTAL EQUITY		**1,363,934**	1,642,845

The notes on pages 20 to 31 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 28 February 2015 – unaudited
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company					
	Note	Share capital $'000	Share premium $'000	Other reserve $'000	Accumulated losses $'000	Exchange reserve $'000	Total $'000
Balance at 1 September 2013		8	1,757,197	–	(170,225)	2,698	1,589,678
Changes in equity for the six months ended 28 February 2014:							
Profit for the period		–	–	–	10,887	–	10,887
Other comprehensive income		–	–	–	–	(995)	(995)
Total comprehensive income		–	–	–	10,887	(995)	9,892
Balance at 28 February 2014 and 1 March 2014		8	1,757,197	–	(159,338)	1,703	1,599,570
Changes in equity for the six months ended 31 August 2014:							
Profit for the period		–	–	–	42,663	–	42,663
Other comprehensive income		–	–	–	–	612	612
Total comprehensive income		–	–	–	42,663	612	43,275
Balance at 31 August 2014		8	1,757,197	–	(116,675)	2,315	1,642,845

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 28 February 2015 – unaudited
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company					
	Note	Share capital $'000	Share premium $'000	Other reserve $'000	Accumulated losses $'000	Exchange reserve $'000	Total $'000
Balance at 31 August 2014 and 1 September 2014		8	1,757,197	–	(116,675)	2,315	1,642,845
Changes in equity for the six months ended 28 February 2015:							
Loss for the period		–	–	–	(46,688)	–	(46,688)
Other comprehensive income		–	–	–	–	(2,065)	(2,065)
Total comprehensive income		–	–	–	(46,688)	(2,065)	(48,753)
Issue of shares	14(b)(ii)	100	1,160,685	–	–	–	1,160,785
Elimination on the completion of the Share Transfer	14(c)	(8)	(1,757,197)	596,420	–	–	(1,160,785)
Dividend declared prior to the Reorganisation	14(a)	–	(230,158)	–	–	–	(230,158)
Balance at 28 February 2015		100	930,527	596,420	(163,363)	250	1,363,934

The notes on pages 20 to 31 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 28 February 2015 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended	
	28 February 2015 $'000	28 February 2014 $'000
Operating activities		
Cash generated from operations	**313,476**	366,077
Hong Kong Profits Tax paid	**(81,968)**	(38,569)
Tax paid outside Hong Kong	**(2,523)**	(1,971)
Net cash generated from operating activities	**228,985**	325,537
Investing activities		
Payment for purchase of fixed assets	**(120,549)**	(132,522)
Proceeds from sale of fixed assets	**988**	4,652
Payment for contingent consideration	**(4,195)**	(3,090)
Other cash flows arising from investing activities	**1,909**	(3,639)
Net cash used in investing activities	**(121,847)**	(134,599)
Financing activities		
Proceeds from bank loan, net of transaction costs	**3,009,843**	–
Payments of transaction costs for banking facilities	**(12,439)**	–
Payment for early redemption of senior notes	**(3,095,624)**	–
Payment for repurchases of senior notes	**–**	(96,488)
Interest paid on bank loan	**(6,812)**	–
Interest paid on senior notes	**(82,124)**	(86,248)
Other cash flows arising from financing activities	**(4,060)**	(946)
Net cash used in financing activities	**(191,216)**	(183,682)
Net (decrease)/increase in cash and cash equivalents	**(84,078)**	7,256
Cash and cash equivalents at the beginning of the period	**435,630**	310,029
Effect of foreign exchange rate changes	**1,200**	111
Cash and cash equivalents at the end of the period	**352,752**	317,396

The notes on pages 20 to 31 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report of HKBN Ltd. (the "Company") and its subsidiaries (together the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 29 April 2015.

The Company was incorporated in the Cayman Islands on 26 November 2014 as an exempted company with limited liability under the Companies Law, Chapter 22 (2013 Revision) of the Cayman Islands. As part of a group reorganisation (the "Reorganisation"), the entire issued share capital of Metropolitan Light Company Limited ("MLCL") was transferred to the Company in consideration for an issue of the Company's shares to Metropolitan Light Holdings Limited ("MLHL") (the "Share Transfer") on 17 February 2015. MLHL was the immediate holding company of MLCL prior to the Share Transfer. Upon the completion of the Share Transfer, the Company became the parent company of MLCL and its subsidiaries, and the holding company of the Group.

MLHL transferred, by way of distribution, all of the Company's shares held by it to its shareholders on 11 March 2015.

MLCL was incorporated in the Cayman Islands on 15 March 2012. On 30 May 2012, MLCL acquired the telecommunication business from Hong Kong Television Network Limited ("HKTV", formerly known as "City Telecom (H.K.) Limited").

The companies that took part in the Share Transfer were controlled by the same ultimate equity shareholders before and after the Share Transfer and there were no changes in the business and operations of MLCL and its subsidiaries. The Share Transfer only involved incorporating the Company with no prior substantive operations as the holding company of MLCL and the Group. Accordingly, the Share Transfer has been accounted for using a principle similar to that for a reverse acquisition with MLCL treated as the acquirer for accounting purposes.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements of the Group for the year ended 31 August 2014, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 August 2014. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 12.

The financial information relating to the financial year ended 31 August 2014 that is included in the interim financial report as being previously reported information does not constitute the Group's financial statements for that financial year but is derived from those annual financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. None of these developments have significant impact to the Group's results and financial position.

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

3 SEGMENT REPORTING

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

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

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

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

4 TURNOVER

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

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

The amount of each category of revenue recognised in turnover during the period is as follows:

	Six months ended	
	28 February 2015 $'000	28 February 2014 $'000
Residential revenue	**871,671**	798,832
Enterprise revenue	**229,328**	208,258
Product revenue	**25,112**	13,649
	1,126,111	1,020,739

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

5 (LOSS)/PROFIT BEFORE TAXATION

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

		Six months ended	
		28 February 2015	28 February 2014
		$'000	$'000
(a)	**Other operating expenses**		
	Advertising and marketing expenses	**191,409**	179,427
	Depreciation	**183,693**	157,791
	Gain on disposal of fixed assets, net	**(33)**	(3,687)
	Impairment losses on accounts receivable	**12,028**	7,926
	Talent costs (note 5(d))	**198,989**	171,742
	Amortisation of intangible assets	**55,083**	131,833
	Listing expenses	**52,419**	–
	Others	**120,559**	120,406
		814,147	765,438
(b)	**Other net income**		
	Interest income	**(1,909)**	(1,361)
	Net foreign exchange loss	**724**	2,283
	Other income	**(1,979)**	(2,320)
	Amortisation of obligations under granting of rights	**(4,512)**	(4,512)
	Change in fair value of contingent consideration	**(2,165)**	–
		(9,841)	(5,910)
(c)	**Finance costs**		
	Interest on bank loan	**10,173**	–
	Interest on interest-rate swap, net	**462**	–
	Interest on senior notes	**66,826**	93,139
	Fair value loss on interest-rate swap	**13,206**	–
	Loss on extinguishment of senior notes (note 13)	**96,234**	3,054
	Originating fee for banking facility expired	**11,600**	–
		198,501	96,193

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

5 (LOSS)/PROFIT BEFORE TAXATION (CONTINUED)

(Loss)/profit before taxation is arrived at after charging/(crediting) (continued):

	Six months ended 28 February 2015 $'000	Six months ended 28 February 2014 $'000
(d) Talent costs		
Salaries, wages and other benefits	**310,628**	278,056
Contributions to defined contribution retirement plan	**24,233**	24,034
	334,861	302,090
Less: Talent costs capitalised as fixed assets	**(12,467)**	(10,051)
Talent costs included in advertising and marketing expenses	**(123,405)**	(120,297)
	198,989	171,742

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

	Six months ended 28 February 2015 $'000	Six months ended 28 February 2014 $'000
(e) Other items		
Net foreign exchange loss	**724**	2,283
Amortisation of intangible assets	**55,083**	131,833
Depreciation of fixed assets	**183,693**	157,791
Operating lease charges in respect of land and buildings: minimum lease payments	**18,151**	19,813
Operating lease charges in respect of telecommunications facilities and computer equipment: minimum lease payments	**61,708**	61,617
Research and development costs	**9,896**	8,088
Cost of inventories	**23,159**	10,820

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX

	Six months ended	
	28 February 2015 $'000	28 February 2014 $'000
Current tax - Hong Kong Profits Tax	**62,777**	40,251
Current tax - Outside Hong Kong	**2,388**	2,444
Deferred tax	**(24,024)**	(20,302)
	41,141	22,393

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 28 February 2014: 16.5%) of the estimated assessable profits for the six months ended 28 February 2015.

Income tax expense for the current taxation outside Hong Kong is mainly related to the income tax in the People's Republic of China (the "PRC") and is similarly calculated using the estimated annual effective rate of taxation that is expected to be in the PRC.

7 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of $46,688,000 (six months ended 28 February 2014: profit of $10,887,000) and the weighted average number of 1,000,000,000 ordinary shares (six months ended 28 February 2014: 1,000,000,000 ordinary shares) in issue during the interim period. The weighted average number of ordinary shares in issue during the six months ended 28 February 2015 and 2014 is based on the assumption that 1,000,000,000 ordinary shares were in issue as if these ordinary shares issued at the date the Company became the holding company of the Group were outstanding throughout both periods presented.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is the same as basic (loss)/earnings per share for the six months ended 28 February 2015 and 2014 as there were no dilutive potential ordinary shares during both periods presented.

8 FIXED ASSETS

Acquisitions and disposals

During the six months ended 28 February 2015, the Group's additions of fixed assets with a cost of $164,883,000 (six months ended 28 February 2014: $132,522,000), including the telecommunication, computer and office equipment of $147,337,000 (six months ended 28 February 2014: $120,209,000).

During the six months ended 28 February 2015, the Group disposed of certain fixed assets with a net book value of $955,000 (six months ended 28 February 2014: $965,000), resulting in a gain on disposal of $33,000 (six months ended 28 February 2014: $3,687,000).

9 ACCOUNTS RECEIVABLE, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

As of the balance sheet date, the ageing analysis of accounts receivable, based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 28 February 2015 $'000	At 31 August 2014 $'000
Within 30 days	**66,070**	55,506
31 to 60 days	**15,786**	13,229
61 to 90 days	**5,360**	4,032
Over 90 days	**1,099**	7,228
Accounts receivable, net of allowance for doubtful debts	**88,315**	79,995
Other receivables, deposits and prepayments	**213,523**	181,084
	301,838	261,079

The majority of the Group's accounts receivable 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.

Other receivables, deposits and prepayments consist of rental deposit, interest receivable, unbilled revenue, prepayments and other receivables. All of the other receivables, except for rental deposits and other receivables amounted to $7,869,000 (31 August 2014: $10,940,000), are expected to be recovered within one year.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated balance sheet and condensed consolidated cash flow statement comprise:

	At 28 February 2015 $'000	At 31 August 2014 $'000
Cash at bank and in hand	**352,752**	435,630

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

11 ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES

As of the balance sheet date, the ageing analysis of accounts payable, based on the invoice date, is as follows:

	At 28 February 2015 $'000	At 31 August 2014 $'000
Within 30 days	**4,004**	4,503
31 to 60 days	**1,938**	3,237
61 to 90 days	**163**	12
Over 90 days	**4,549**	3,859
Accounts payable	**10,654**	11,611
Other payables and accrued charges	**274,537**	306,625
	285,191	318,236

12 BANK LOAN

On 11 December 2014, the Group entered into terms and revolving credit facilities agreement of $4,460,000,000 with, J.P. Morgan Chase Bank, N.A., acting through its Hong Kong Branch as mandated lead arranger and bookrunner (as amended and restated on 22 December 2014 and as may be amended and restated from time to time). The facilities consist of the following:

- a $3,100,000,000 term facility ("Term Facility A");
- a $1,160,000,000 term facility ("Term Facility B", together with Term Facility A, the "2014 Term Facilities"); and
- a $200,000,000 revolving credit facility (the "2014 Revolving Facility" and together with the 2014 Term Facilities, in each case as may be amended and restated from time to time, the "New Credit Facilities").

At 28 February 2015, the Group has a bank loan with principal amount of $3,100,000,000 drawn under the Term Facility A on 19 January 2015 and the proceeds were used to redeem the senior notes, as well as settling fees payable in connection with the New Credit Facilities. The bank loan is interest-bearing at Hong Kong Inter-bank Offered Rate plus a margin of 2.06% per annum payable quarterly.

The bank loan is recognised initially at fair value less attributable transactions costs. Subsequent to initial recognition, the bank loan is stated at amortised cost with any difference between the amount initially recognised and interest payable using the effective interest method. Periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. To calculate the effective interest in each reporting period, the effective interest rate is applied to the amortised cost of the bank loan at the end of the previous reporting period.

The effective interest rate of the bank loan as of 28 February 2015 is 3.1%.

The bank loan is covered by a cross guarantee arrangement issued by MLCL, HKBN Group Limited and Hong Kong Broadband Network Limited ("HKBN"), and repayable in full upon final maturity on 20 January 2020.

The Term Facility B subsequently expired on 12 March 2015, while the 2014 Revolving Facility will expire on 20 January 2020.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

13 SENIOR NOTES

On 17 January 2013 (the "Issue Date"), the Group issued five-year US$450,000,000 (equivalent to $3,492,000,000) notes that were to mature on 17 January 2018 (the "Notes"). The Notes were denominated and settled in USD, and bore coupon at 5.25% per annum payable semi-annually on 17 July and 17 January in each year, commencing on 17 July 2013. The Notes were irrevocably and unconditionally guaranteed by MLCL and HKBN.

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

During the six months ended 28 February 2014, the Group repurchased a portion of the Notes with aggregate principal value of US$12,205,000 (equivalent to $94,711,000) in the open market. The total consideration paid was approximately US$12,434,000 (equivalent to $96,488,000). The loss on partial extinguishment of the Notes, which included the write-off of unamortised senior notes originating fee and redemption cost, was US$394,000 (equivalent to $3,054,000) and recorded within the finance costs in the consolidated income statement (note 5(c)) for the six months ended 28 February 2014.

At 31 August 2014, the remaining principal amount of the Notes in issue after the repurchase was US$392,420,000 (equivalent to $3,041,255,000) and the amortised cost of the Notes was US$386,330,000 (equivalent to $2,994,058,000).

On 19 December 2014, the Group served a notice to the holders of Notes to redeem the Notes on 22 January 2015. The Group drew down the bank loan of $3,100,000,000 under the Term Facility A on 19 January 2015 (see note 12) and redeemed the Notes on 22 January 2015. Upon the redemption, the loss on extinguishment of US$12,406,000 (equivalent to $96,234,000), including a premium paid of US$6,867,000 (equivalent to $53,268,000) and the write off of unamortised senior notes originating fee of US$5,539,000 (equivalent to $42,966,000), was recorded within the finance costs in the consolidated income statement (note 5(c)) for the six months ended 28 February 2015.

The effective interest rate of the Notes for the period prior to the redemption is 5.9% (year ended 31 August 2014: 5.9%) per annum.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

14 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividend

Dividend of US$29,660,000 (equivalent to $230,158,000) declared to the former immediate holding company prior to the completion of the Reorganisation was approved on 18 February 2015 and recognised as dividend payable to the former immediate holding company as at 28 February 2015. The dividend was paid on 9 March 2015.

(b) Share capital

Upon completion of the Share Transfer, the Company became the holding company of the Group. The share capital in the consolidated balance sheet at 28 February 2015 represented the issued capital of the Company.

The share capital in the consolidated balance sheet at 31 August 2014 represented the paid-in capital of MLCL.

	No. of shares	$'000
Authorised:		
At 26 November 2014 (date of incorporation) and 28 February 2015 (note (i))	3,800,000,000	380
Ordinary shares, issued and fully paid:		
At 26 November 2014 (date of incorporation) (note (i))	1	–
Issue of shares (note (ii))	999,999,999	100
At 28 February 2015	1,000,000,000	100

Notes:

(i) The Company was incorporated on 26 November 2014 with an authorised share capital of $380,000 divided into 3,800,000,000 ordinary shares of $0.0001 each. On the same date, one ordinary share of $0.0001 was allocated and issued at par.

(ii) On 17 February 2015, the Company issued additional 999,999,999 ordinary shares of $0.0001 each to MLHL in consideration for the transfer by MLHL of the entire issued share capital of MLCL, with a carrying amount of $1,160,785,000, to the Company. The Company credited all 1,000,000,000 ordinary shares outstanding as of 17 February 2015 as fully paid, amounting to $100,000. The remaining of $1,160,685,000 was recorded in the share premium account.

(c) Other reserve

Upon completion of the Share Transfer, the Company become the holding company of the Group, and the combined share capital and share premium prior to the Share Transfer, amounting to $8,000 and $1,757,197,000 respectively, were eliminated against the investment in MLCL with a carrying amount of $1,160,785,000. The remaining balance of $596,420,000 was recorded in the other reserve.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the balance sheet date on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 28 February 2015 $'000	**Fair value measurement as at 28 February 2015 categorised into Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instruments:				
– Interest-rate swap	13,206	–	13,206	–
Contingent consideration	3,215	–	–	3,215

	Fair value at 31 August 2014 $'000	Fair value measurement as at 31 August 2014 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial liabilities:				
Contingent consideration	9,575	–	–	9,575

During the six months ended 28 February 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (year ended 31 August 2014: $Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the balance sheet date in which they occur.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial liabilities measured at fair value (continued)

(ii) Valuation techniques and inputs used in Level 2 fair value measurement

The fair value of interest-rate swap is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparty.

(iii) Information about Level 3 fair value measurement

The fair value of the contingent consideration is determined considering the expected payment, discounted to present value using a risk-adjusted discount rate of 18% (31 August 2014: 18%).

The movement during the period in the balance of Level 3 fair value measurement is as follows:

	At 28 February 2015 $'000	At 31 August 2014 $'000
Contingent consideration		
At the beginning of the period	**9,575**	12,665
Payment for settlement of contingent consideration for the years ended 31 August 2014 and 2013	**(4,195)**	(3,090)
Change in fair value during the period	**(2,165)**	–
At the end of the period	**3,215**	9,575
Contingent consideration – current portion	**3,215**	6,145
Contingent consideration – long-term portion	**–**	3,430
Total contingent consideration	**3,215**	9,575

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 28 February 2015 and 31 August 2014.

16 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 28 February 2015 $'000	At 31 August 2014 $'000
Purchase of telecommunications, computer and office equipment		
Contracted but not provided for	**127,378**	67,992

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

17 CONTINGENT LIABILITIES

	At 28 February 2015 $'000	At 31 August 2014 $'000
Bank guarantee provided to suppliers	1,800	1,820
Bank guarantee in lieu of payment of utility deposits	3,622	3,622
	5,422	5,442

At 28 February 2015 and 31 August 2014, the directors did not consider it is probable that a claim will be made against the Group under any guarantees. The Group has not recognised any deferred income in respect of the guarantees issued as their fair value cannot be reliably measured and their transaction price was $Nil during the period (year ended 31 August 2014: $Nil).

18 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company, is as follows:

	Six months ended	
	28 February 2015 $'000	28 February 2014 $'000
Short-term employee benefits	18,007	18,040
Post-employment benefits	1,161	1,137
	19,168	19,177

19 SUBSEQUENT EVENT

On 12 March 2015, the shares of the Company became listed on the Main Board of The Stock Exchange of Hong Kong Limited. The Company capitalised an amount of $567 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 5,666,666 ordinary shares for allotment and issue to the appointed trustee, in which the shares are held on trust by the appointed trustee until their release to the beneficiaries upon the vesting of the restricted share units granted pursuant to the Co-Ownership Plan II.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

The Company was incorporated in the Cayman Islands on 26 November 2014 as an exempted company with limited liability. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 March 2015 (the "**Listing Date**").

As of the date of this report, the interests or short positions of the Company's directors, chief executives and their associates in the shares and/or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), were as follows:

Long Position

Ordinary shares of HK$0.0001 each in the Company

Name of director	Capacity	Number of shares held	Percentage of the issued share capital of the Company
William Chu Kwong Yeung	Beneficiary owner	25,642,544	2.55%
Ni Quiaque Lai	Beneficiary owner	32,022,544	3.18%

Other than the interests disclosed above, none of the directors nor the chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at the date of this report.

OTHER INFORMATION

SHARE INCENTIVE SCHEME

The Plan

To attract, retain and motivate skilled and experienced talents, the Company adopted the Plan on 21 February 2015. Under the Plan, the Board may, in its absolute discretion, invite participants to purchase shares of the Company and agree to grant them a contingent right to receive shares (i.e. a restricted share unit (the "**RSU**")) at the relevant matching ratio in respect of any shares purchased, subject to certain terms, conditions and undertakings. The total number of shares that may underlie the RSUs granted pursuant to the Plan shall be (i) 10% of the shares in issue on the Listing Date or (ii) 10% of the shares in issue as at the date following the date of approval of the renewed limit (as the case may be). The Plan 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 Plan, after which period no further RSUs shall be offered or granted.

In order to enable the Plan 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 Plan trustee. Such shares represented approximately 0.56% of the total issued share capital of the Company on the Listing Date. The Plan trustee will hold such shares on trust until their release to participants upon vesting of the RSUs.

No invitations or grants under the Plan had been made as at the date of this report.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the "Share Incentive Scheme" above, at no time during the period was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that, as the date of this report, the following shareholders had notified the Company of their relevant interests in shares representing 5% or more of the issued share capital of the Company.

Long position

Ordinary shares of HK$0.0001 each in the Company

Name of shareholder	Notes	Number of ordinary shares beneficially held	Percentage of the issued share capital of the Company
Canada Pension Plan Investment Board	(a)	172,382,000	17.14%
GIC (Ventures) Pte Ltd	(b)	97,821,891	9.73%
GIC Private Limited	(b)	97,821,891	9.73%
JPMorgan Chase & Co.	(c)	71,014,465	7.06%
CVC Capital Partners SICAV-FIS S.A	(d)	59,869,679	5.95%
CVC Capital Partners 2013 PCC (formerly known as CVC Capital Partners 2012 Limited)	(d)	59,869,679	5.95%
CVC Capital Partners Asia Pacific III Parallel Fund – A, L.P.	(d)	59,869,679	5.95%
The Capital Group Companies, Inc.	(e)	59,297,000	5.90%

Notes:

(a) The 172,382,000 ordinary shares were acquired pursuant to the Cornerstone Investment Agreement (as defined in the listing prospectus of the Company dated 27 February 2015).

(b) The 97,821,891 ordinary shares are directly held by City-Scape Pte Ltd, which is wholly-owned by GIC (Ventures) Pte Ltd. GIC Special Investments Pte Ltd manages the investments of City-Scape Pte Ltd, and is wholly-owned by GIC Private Limited.

(c) The 71,014,465 ordinary shares are held as to 60,919,000 ordinary shares in the capacity as investment manager and 10,095,465 ordinary shares in the capacity as custodian corporation/approved lending agent.

Of the 71,014,465 ordinary shares held by JPMorgan Chase & Co., 1,869,500 ordinary shares are directly held by JF International Management Inc., 55,615,000 ordinary shares are directly held by JF Asset Management Limited, 792,000 ordinary shares are directly held by JPMorgan Asset Management (Japan) Limited, 2,642,500 ordinary shares are directly held by JPMorgan Asset Management (Taiwan) Limited, and 10,095,465 ordinary shares are directly held by JPMorgan Chase Bank, N.A..

Each of JF International Management Inc., JF Asset Management Limited, JPMorgan Asset Management (Taiwan) Limited and JPMorgan Asset Management (Japan) Limited is wholly-owned by JPMorgan Asset Management (Asia) Inc., which is in turn wholly-owned by JPMorgan Asset Management Holdings Inc. Each of JPMorgan Asset Management (Asia) Inc. and JPMorgan Asset Management Holdings Inc is therefore deemed to be interested in an aggregate of 60,919,000 ordinary shares.

OTHER INFORMATION

Each of JPMorgan Chase Bank N.A. and JPMorgan Asset Management Holdings Inc is wholly-owned by JPMorgan Chase & Co.. JPMorgan Chase & Co. is therefore deemed to be interested in an aggregate of 71,014,465 ordinary shares.

(d) The 59,869,679 ordinary shares which are beneficially owned by CVC Capital Partners SICAV-FIS S.A are directly held by Metropolitan Light Group Holdings Limited.

Metropolitan Light Group Holdings Limited is owned as to 88.00% to CVC Capital Partners Asia Pacific III L.P. and as to 12.00% to CVC Capital Partners Asia Pacific III Parallel Fund – A, L.P.. Each of CVC Capital Partners Asia Pacific III L.P. and CVC Capital Partners Asia Pacific III Parallel Fund – A, L.P. is wholly-controlled by CVC Capital Partners Asia III Limited as general partner, which is in turn wholly-owned by CVC Capital Partners Advisory Company Limited, which is in turn wholly-owned by CVC Capital Partners Finance Limited, which is in turn wholly-owned by CVC Group Holdings L.P., which is in turn wholly-controlled by CVC Portfolio Holdings Limited as general partner and wholly-controlled by CVC Group Limited as limited partner. CVC Group Limited is owned as to 80.83% by CVC Portfolio Holdings Limited, which is in turn wholly-owned by CVC MMXII Limited, which is wholly-owned by CVC Capital Partners 2013 PCC, which is in turn wholly-owned by CVC Capital Partners SICAV-FIS S.A, which is therefore deemed to be interested in an aggregation of 59,869,679 ordinary shares.

Mr. Roy Kuan, a non-executive director of the Company is an employee of an affiliate of CVC Capital Partners SICAV-FIS S.A.

(e) The 59,297,000 ordinary shares are directly held by Capital Research and Management Company, which is wholly-owned by The Capital Group Companies, Inc.

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the Company was not listed on the Stock Exchange until the Listing Date, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 28 February 2015.

INTERIM DIVIDEND

Dividend of HK$230 million declared to the former immediate holding company prior to the completion of a group reorganisation was approved on 18 February 2015 and recognised as dividend payable to the former immediate holding company as at 28 February 2015. The dividend was paid on 9 March 2015.

Except for the above, the Board does not recommend the payment of an interim dividend. Our dividend policy is to pay dividends in an amount of not less than 90% of our Adjusted Free Cash Flow with an intention to pay 100% of our Adjusted Free Cash Flow in respect of the relevant period (pro rata for the number of days since the Listing Date for current financial year), after adjusting for potential debt repayment, if required.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited interim financial report of the Group for the six months ended 28 February 2015. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management and the external auditor of the Company, KPMG.

The unaudited interim financial report of the Group for the six months ended 28 February 2015 has been reviewed by the Company's external auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

OTHER INFORMATION

CORPORATE GOVERNANCE

Throughout the period from the Listing Date to the date of this report, the Company has applied the principles of and has complied with the applicable code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by directors. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code throughout the period from the Listing Date to the date of this report.

By order of the Board of Directors
HKBN Ltd.
Bradley Jay Horwitz
Chairman

Hong Kong, 29 April 2015

OPEN LETTER TO POTENTIAL DISRUPTIVE PARTNERS

As part of HKBN management's readiness to engender greater possibilities through disruptive partnerships, an open invitation was recently extended for content partners everywhere to leverage our leading fibre broadband network.

Dear Potential Disruptive Partners,

Global Open Invitation to Partner with HKBN Fibre/Wi-Fi Local Loop

Over the past 15 years, we invested over HK$4 billion to build one of the most comprehensive fibre and Wi-Fi local loops in Hong Kong with deep residential and business reach. At HKBN, we believe in focusing on what we are KickAss good at doing, which is to provide the best Big Fat Dumb Pipe for our customers to access the world. This focused strategy has borne fruit in terms of our market leading growth rates and profitability.

We are extending a global open invitation for business partners to leverage our local loop so as to provide the ultimate best-in-class end user experience. We welcome out-of-the-box disruptive proposals as this is how we act ourselves. Some examples of existing partnerships include:

- Partnering with a major amusement park, to facilitate premium-pass visitors with 3-day access to our 11,000 plus public Wi-Fi access points throughout the city, thereby saving data roaming charges.

- Innovated with a number of hotel groups to provide public Wi-Fi access as an integral part of their hotel Wi-Fi package, thereby saving data roaming charges.

- Embraced international data center carriers to lay their local loop fibre in our underground ducts to connect multiple locations within Hong Kong, i.e. we've gone beyond offering just dark fibre to open our network to offer dark ducts.

- United with global over-the-top content providers to cache their content over our network locally to save costs and improve customer experiences.

In short, if you have an idea to leverage our fibre/Wi-Fi local loop, come chat with us as we are wide open for business partnerships such as revenue share, barter, etc.

Sincerely Yours,

William Yeung
CEO and Co-Owner
Email: william.yeung@hkbn.com.hk

NiQ Lai
Head of Talent Engagement, CFO and Co-Owner
Email: niq.lai@hkbn.com.hk

OUR HKBN CULTURE

Our passion to go above and beyond for our company, our industry, and our city motivates us to continually engage and inspire our over 2,300 Talents through many unique activities and programmes, as well as undertake various Corporate Social Investment initiatives to create higher social value and realise our core purpose to “Make Our Hong Kong a Better Place to Live”.

Under the five year *Next Station*: University Programme, HKBN sponsored 30 Talents to fulfill their dream of obtaining a Bachelor’s Degree.

Thumbs up to IPO success from our Management Committee members.

HKBN Talents voted for a HK$1 million Corporate Social Investment partnership with ChickenSoup Foundation.

An assemblage of HKBN Talents gathered in jubilation of a successful IPO at HKEx.

Professor J. Keith Murnighan teaching the art of effective leadership in a workshop tailored for HKBN’s top management and partners.

Jumping for joy to show their elation on listing day, our CFO and CEO at HKEx.

OUR HKBN CULTURE

Celebration of a successful IPO listing the HKBN way: senior management happily serving Talents with treats made by hand.

A key part of our Corporate Social Investment commitment entrusts part of our 1083 telephone enquiry service to disabled specialists from social enterprise, iEnterprise.

A band of energetic HKBNers showcase their team spirit in support for Fairtrade during a charity football match.

Fulfilling a promise of speed, HKBN Talents challenged themselves to improve their personal best times at the 2015 Standard Chartered Hong Kong Marathon.

This past December, HKBN Talents conquered an 11km experiential trek up the highest peak on Lantau Island, Hong Kong.

Our three-year participation in the *Fly High with Us* programme inspired 29 local youths through bonding, guidance and sharing from 23 HKBN mentors.

Throughout Ethical Consumption Month, HKBN invited social enterprises to sell merchandise at our headquarters.

As part of our team building exercises, individual teams chose activities of their own to build solidarity between Talents.

THIS IS WHO WE ARE

Amid feelings of excitement in turning a new chapter, our most recent town-hall meeting was held just one day after HKBN's IPO listing. With all Talents and our newly formed Board of Directors united and in attendance, this town-hall turned into an event of proud celebration.

香港寬頻
HONG KONG
BROADBAND NETWORK