香港寬頻
HONG KONG
BROADBAND NETWORK

HKBN Ltd.
香港寬頻有限公司

HARVESTING BEGINS

Interim Report 2017

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

Driven by the concerted efforts of HKBN Dragon Boat Team

HARVESTING BEGINS

Ever since we began our transformative journey to embrace OTT (Over-the-Top) content partnerships, first in late 2015, followed by a September 2016 entry into the mobile space, the seeds of our future growth were sowed. In less than 18 months, our focus on both fronts has delivered great progress, prompting customers to choose HKBN not just only for fibre broadband and fixed voice services, but also for OTT and mobile services. As a fully integrated quad-service player, we've now surged past the initial cultivation phase – and we're beginning to leverage even more quad-play offerings to harvest maximum value for both our shareholders and our customers.

HKBN DRAGON BOAT TEAM

YATHIN CHAN
Assistant Engineer
joined in 2014

DALLAS CHANG
Senior Unit Manager, Residential Services and Co-Owner
joined in 2008

MAVIS CHOW
Graduate Technical Trainee and Co-Owner, joined in 2015

JOHNSON CHU
Senior Manager – Strategic Planning and Co-Owner
joined in 2012

KIM HUE
Manager – Marketing Communications and Co-Owner
joined in 2014

HERMAN HUI
Senior Officer – Marketing Communications
joined in 2012

BEN KWOK
Assistant Technical Specialist
joined in 2014

MARCO LI
Manager – Marketing and Co-Owner, joined in 2011

JASON TAM
Manager – IT System Operations and Co-Owner
joined in 2009

SHAN TAM
Manager – Internal Audit and Co-Owner, joined in 2009

BILLY TSANG
Senior Service Technician
joined in 2003

WILLIAM WONG
Engineer
joined in 2003

JOHN ZHANG
Senior Network Support Executive, joined in 2013

CONTENTS

Unless otherwise stated, all monetary figures from this report are in Hong Kong dollars.

This report is published in both English and Chinese. Where the English and the Chinese texts conflict, the English text prevails.

CORPORATE INFORMATION

CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Bradley Jay HORWITZ [2,4]

EXECUTIVE DIRECTORS

Mr. William Chu Kwong YEUNG [3, 6]
Mr. Ni Quiaque LAI

NON-EXECUTIVE DIRECTOR

Ms. Deborah Keiko ORIDA [4]

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Stanley CHOW [2,4,5]
Mr. 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

Mr. King Chiu LEUNG (resigned on 3 January 2017)
Ms. Maria Amy TAM (appointed on 3 January 2017)

AUTHORISED REPRESENTATIVES

Mr. Ni Quiaque LAI
Mr. King Chiu LEUNG (resigned on 3 January 2017)
Ms. Maria Amy TAM (appointed on 3 January 2017)

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITOR

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

CAYMAN PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MAPLES FUND SERVICES (CAYMAN) LIMITED
P.O. Box 1093
Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

TRICOR INVESTOR SERVICES LIMITED
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

CITIBANK, N.A., HONG KONG BRANCH
50th Floor, Citibank Tower
Citibank Plaza
3 Garden Road, Central
Hong Kong

STANDARD CHARTERED BANK (HONG KONG) LIMITED
3rd Floor, Standard Chartered Bank Building
4-4A Des Voeux Road Central, Central
Hong Kong

COMPANY'S WEBSITE

www.hkbnltd.net

STOCK CODE

1310

CEO & COO LETTER

Dear Fellow Shareholders,

As we stand today, our biggest asset is no longer our comprehensive fibre network but rather our monthly billing relationship with over 870,000 broadband households, representing more than one-third of Hong Kong's 2.51 million total households, and over 50,000 corporate accounts. The challenge for us now is to monetise and harvest these relationships via upselling more services.

Our residential business today is very much double-play centric on our core broadband and fixed voice but we see an exceptional opportunity to upsell our monthly billing relationship towards quad-play to include OTT (Over-The-Top) content and mobile. We are executing upon this opportunity with 627,000 OTT set-top boxes ordered after 16 months of service and 54,000 activated mobile customers after 6 months of service. Over time, we are seeing integrated single-bill quad-play service offerings as our LUCA (Legal Unfair Competitive Advantage), as our competitors are hesitant on embracing this due to fear of cannibalisation of their existing premium priced standalone services. Since the beginning of our 2017 financial year on 1 September 2016, we have pivoted our focus from subscriber growth to price increases, and have now reached an acquisition and renewal contract ARPU of $192/month for the month of February 2017, which is well above the historical full base residential ARPU of $166/month for the six months to 28 February 2017. If we can hold onto our price point and our subscriber base as our two-year contracts rollover, then the two ARPU metrics will converge with every $10 change in residential ARPU equating to around $100 million of revenue, of which the majority flows to Adjusted Free Cash Flow.

On Enterprise Solutions, we will continue to increase revenues within our small and medium-sized enterprises (SME) customer base by introducing more innovative and disruptive products and services. On the corporate side, we will aggressively grow our customer base by expanding our role as a supplementary carrier service provider, as well as introduce a range of new corporate mobile service offerings. Once we have broken into a corporate account, we are able to capture more of their telecom and IT spend. It has been a very exciting first half of FY2017, as we have made some significant headway and secured some very large and prestigious accounts, such as Telstra, the Joint Universities Computer Centre Ltd., COLT and Kowloonbay International Trade & Exhibition Center, each a multi-million-dollar new account.

Whilst our focus on residential has matured to price increases, our focus for Enterprise Solutions remains on revenue growth as our ambition is to grow to a much bigger scale. In short, after 16 years of sowing our residential fibre seeds, our harvest period has commenced.

Sincerely yours,

William YEUNG
Chief Executive Officer and Co-Owner

NiQ LAI
Chief Operating Officer and Co-Owner

KEY FINANCIAL AND OPERATIONAL SUMMARY

TABLE 1: FINANCIAL HIGHLIGHTS

	For the six months ended 28 February 2017	29 February 2016	Increase/ (Decrease) YoY
Key financials ($'000)			
Revenue	**1,534,726**	1,225,539	+25%
– Residential	**941,025**	898,951	+5%
– Enterprise	**569,222**	269,381	>100%
– Product	**24,479**	57,207	-57%
Profit for the period	**46,034**	135,252	-66%
Adjusted Net Profit [1,2]	**173,985**	209,634	-17%
EBITDA [1,3]	**480,961**	511,266	-6%
EBITDA margin [1,4]	**31.3%**	41.7%	-10.4pp
Adjusted Free Cash Flow [1,5]	**190,855**	185,156	+3%
Reconciliation of Adjusted Net Profit [1,2]			
Profit for the period	**46,034**	135,252	-66%
Amortisation of intangible assets	**64,601**	56,557	+14%
Deferred tax arising from amortisation of intangible assets	**(10,047)**	(9,089)	+11%
Originating fee for banking facility expired	**73,397**	–	+100%
Transaction costs in connection with business combination	**–**	26,914	-100%
Adjusted Net Profit	**173,985**	209,634	-17%

KEY FINANCIAL AND OPERATIONAL SUMMARY

	For the six months ended 28 February 2017	29 February 2016	Increase/ (Decrease) YoY
Reconciliation of EBITDA & Adjusted Free Cash Flow [1,3,5]			
Profit for the period	**46,034**	135,252	-66%
Finance costs	**116,922**	66,336	+76%
Interest income	**(89)**	(647)	-86%
Income tax	**43,809**	48,200	-9%
Depreciation	**209,684**	178,654	+17%
Amortisation of intangible assets	**64,601**	56,557	+14%
Transaction costs in connection with business combination	**–**	26,914	-100%
EBITDA	**480,961**	511,266	-6%
Capital expenditure	**(196,616)**	(177,931)	+11%
Net interest paid	**(56,718)**	(51,356)	+10%
Other non-cash items	**4,066**	131	>100%
Income tax paid	**(120,599)**	(104,094)	+16%
Changes in working capital	**79,761**	7,140	>100%
Adjusted Free Cash Flow	**190,855**	185,156	+3%

KEY FINANCIAL AND OPERATIONAL SUMMARY

TABLE 2: OPERATIONAL HIGHLIGHTS

	For the six months ended 28 February 2017	31 August 2016	29 February 2016	Increase/ (decrease) YoY
Residential business				
Residential homes passed ('000)	**2,225**	2,202	2,162	**+3%**
Subscriptions ('000)				
– Broadband	**878**	857	792	**+11%**
– Voice	**524**	520	485	**+8%**
Market share [6]				
– Broadband	**37.6%**	37.2%	35.2%	**+2.4pp**
– Voice	**22.2%**	22.0%	20.6%	**+1.6pp**
Residential customers ('000)	**928**	898	852	**+9%**
Broadband churn rate [7]	**0.7%**	0.8%	0.8%	**-0.1pp**
Residential ARPU [8]	**$166**	$170	$178	**-7%**
Enterprise business				
Commercial building coverage ('000)	**2.3**	2.3	2.1	**+10%**
Subscriptions ('000)				
– Broadband	**50**	47	40	**+25%**
– Voice	**127**	120	102	**+25%**
Market share [6]				
– Broadband	**17.7%**	17.8%	15.4%	**+2.3pp**
– Voice	**6.8%**	6.5%	5.5%	**+1.3pp**
Enterprise customers ('000)	**51**	50	43	**+19%**
Broadband churn rate [9]	**1.3%**	1.1%	0.9%	**+0.4pp**
Enterprise ARPU [10]	**$1,467**	$1,483	$1,017	**+44%**

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 flow 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), non-recurring finance costs and other non-recurring items. Non-recurring finance costs, in the period under review, include originating fee for banking facility expired. Other non-recurring items, in the period under review, include transaction costs in connection with business combination.

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

(4) EBITDA margin means EBITDA divided by revenue.

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

(6) Our market share in broadband or voice services in Hong Kong, for residential or enterprise business, is calculated by dividing the number of broadband or voice subscriptions we have at a given point in time by the total number of corresponding broadband or voice subscriptions recorded by the Office of the Communications Authority ("OFCA") at the same point in time. Based on the latest disclosure from OFCA for January 2017 market data, total market figures from January 2016 to November 2016 were revised to reflect the adjustments filed by the Internet Service Provider(s).

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

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

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

(10) ARPU means average revenue per user per month. Calculated by dividing the revenue generated in the relevant period from the enterprise telecom business (excluding revenue from IDD 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.

BUSINESS REVIEW

During the six months ended 28 February 2017, the Group continued to deliver a solid set of operational and financial results, which was brought about by the completed integration of the acquisition of the New World Telecom business ("NWT business"), the enrichment of our product portfolio from OTT partners and the newly launched mobile services. As a result, our group revenue and Adjusted Free Cash Flow increased year-on-year by 25% and 3% to $1,535 million and $191 million respectively. EBITDA decreased year-on-year by 6% to $481 million due to the two-year contract flow over impact of lower residential ARPU from last year arising from our focus on subscriber growth and start-up investments associated with our mobile entry in September 2016.

- Residential revenue grew by 5% year-on-year to $941 million as a result of the customer base expansion from last year. Since 1 September 2016, we have pivoted our residential focus from subscriber growth to revenue market focus. As such, we traded off a slow down on our net additions for broadband subscriptions at 21,000 (1H2016: 38,000) in return for an acquisition and renewal contract ARPU of $192/month for the month of February 2017 which is well above the historical full base residential ARPU of $166/month for the six months to 28 February 2017. Our market share by broadband subscriptions increased to 37.6% as of 31 January 2017 (based on the latest available OFCA statistics), up from 37.2% as of 31 August 2016.

  Through working closely with our OTT partners, more than half of our residential broadband customers have ordered at least one OTT set-top box to fulfil their entertainment needs. Ever since launching our OTT entertainment offerings in October 2015, we have achieved a total of 627,000 set-top boxes ordered by residential broadband customers as of 28 February 2017. Leveraging our quality network transmission as well as hi-speed and stable network service, in conjunction with our OTT partners, we are delivering revolutionary entertainment experiences.

  The launch of mobile services through partnering with two major mobile network operators ("MVNO partners") constituted a new and important source of residential revenue for the Group. With progressive marketing campaigns and strong support from our MVNO partners, we achieved a solid customer base with 54,000 activated subscribers during the period. Up to mid-April, we have over 100,000 registered mobile subscribers.

  Through overlaying OTT and mobile services to our broadband bundle packages, the Group will continue to leverage an integrated quad-play price strategy and deliver unprecedented household savings and service convenience to disrupt the legacy broadband, fixed-voice, content and mobile standalone segments.

- Enterprise revenue, which comprised a full six-month's operation results following our acquisition of NWT business, doubled to $569 million. This growth is indicative that the fully integrated business has increased both our presence and capabilities in the enterprise market, which has enabled us to provide a broader range of products and services at competitive value to different customer segments. During the period, we achieved net additions of 1,000 for a total of 51,000 enterprise customers while our enterprise ARPU maintained at $1,467/month, as a result of integrating with the NWT business. Our market share by broadband subscriptions maintained at 17.7% as of 31 January 2017 (based on the latest available OFCA statistics).

- Product revenue decreased by 57% year-on-year to $24 million, which was primarily due to a decline in LeEco packages bundled during the period.

Network costs and costs of sales doubled year-on-year to $304 million mainly due to the incremental network costs for the operation of NWT business.

Other operating expenses increased by 22% year-on-year from $847 million to $1,033 million mainly due to the incremental operating costs required to support the NWT business and upfront advertising and marketing expenses as well as Talent costs for the launch of mobile services in September 2016.

Finance costs increased by 76% year-on-year from $66 million to $117 million mainly due to the one-off finance costs of $73 million in relation to the unamortised transaction cost for the refinanced bank loan. The finance costs were paid in prior period and therefore the one-off write-off of finance costs did not have any impact on cash flow for the period under review. In refinancing, we took advantage of the low interest rate environment to refinance the previous $3,800 million bank facility with a new $3,900 million bank facility as to lower the cost of debt from HIBOR plus 1.85%-2.06% to HIBOR plus 1.35% and to extend the maturity from January 2020 to November 2021. The total net savings of the new five-year bank facility more than covers the one-off write-off for originating fee for the previous five-year bank facility of $73 million. On a net basis, it is expected that this will provide long term benefit to us.

Income tax decreased slightly by 9% year-on-year from $48 million to $44 million. Our finance costs were not tax deductible. Income tax as a percentage of profit before taxation, finance costs and transaction costs in connection with business combination was approximately 21% and 17% for the six months ended 28 February 2017 and 29 February 2016. During the period, the effective tax rate was higher than the statutory income tax rate, as we had not recognised deferred tax assets of the acquired NWT business.

Amid the impact of one-off write-off of unamortised finance costs of $73 million related to refinancing, the profit for the period decreased by 66% year-on-year from $135 million to $46 million for the six months ended 28 February 2017 as compared to the corresponding period last year. Excluding the one-off impact resulted from the finance costs, the profit for the period decreased by 12% from $135 million to $119 million mainly due to the start-up investments associated with our mobile entry in September 2016.

Net additions to property, plant and equipment amounted to $173 million for the period ended 28 February 2017, as compared to $195 million for the corresponding period last year.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets, non-recurring finance costs and non-recurring items, decreased by 17% year-on-year to $174 million.

As a result of the factors explained above, Adjusted Free Cash Flow continued to grow year-on-year at 3% to $191 million. EBITDA decreased by 6% to $481 million, due to the two-year contract flow over impact of lower residential ARPU from last year and the start-up investments associated with the mobile launch in September 2016.

OUTLOOK

We will focus on harvesting our substantially invested network and our monthly billing relationship by upselling more services through OTT and MVNO partnerships, as well as leverage our comprehensive suite of service offerings to drive sustainable growth in Revenue, EBITDA and Adjusted Free Cash Flow through the following initiatives:

- Leverage our quad-play bundle plans to disrupt the legacy broadband, fixed-voice, multimedia content and mobile standalone services;
- Further penetrate the enterprise market through our broad range of business-imperative services and more network capacity; and
- Continue to cultivate our Talent-oriented Co-Ownership culture that aligns risks and rewards with shareholders by enlarging the base of Co-Owners via the Co-Ownership scheme to HKBN Talents.

LIQUIDITY AND CAPITAL RESOURCES

As at 28 February 2017, the Group had total cash and cash equivalents of $273 million (31 August 2016: $355 million) and gross debt (principal amount of outstanding borrowing) of $3,900 million (31 August 2016: $3,800 million), which led to a net debt position of $3,627 million (31 August 2016: $3,445 million).

- The Group's gearing ratio, which was expressed as a ratio of the gross debt over total equity, was 3.2x as at 28 February 2017 (31 August 2016: 2.8x).
- The Group's net debt to EBITDA ratio, which was expressed as a ratio of the gross debt net of cash and cash equivalents over EBITDA, was 3.7x as at 28 February 2017 (31 August 2016: 3.4x).

On 28 November 2016, the Group drew down a five-year bank loan of $3,900 million bearing interest rate at HIBOR plus margin, in order to finance the repayment of the remaining bank loan in full. Subsequent to the refinancing transaction completed, the Group's debt maturity was extended by 1.8 years to November 2021. Since the bank loan was repayable in full upon final maturity on November 2021, the Group can either refinance or renew it on maturity or earlier through sources that it deems appropriate at that time. This has provided us with flexibility to plan for various sources of financing arrangements 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 2017 and 31 August 2016. As at 28 February 2017, the Group had an undrawn revolving credit facility of $200 million (31 August 2016: $200 million).

Under the liquidity and capital resources condition as at 28 February 2017, the Group can fund its capital expenditures and working capital requirements for the financial year ending 31 August 2017 with internal resources and the available banking facilities.

HEDGING

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

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

Subsequent to the refinancing transaction completed, 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. Benefiting from the hedging arrangement, the Group fixed the HIBOR interest rate exposure at 2.26% per annum.

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

CHARGE ON GROUP ASSETS

As of 28 February 2017 and 31 August 2016, no assets of the Group were pledged to secure its loans and banking facilities.

CONTINGENT LIABILITIES

As at 28 February 2017, the Group had total contingent liabilities of $4 million (31 August 2016: $4 million) in respect of bank guarantees provided to suppliers and utility vendors in lieu of payment of utility deposits.

EXCHANGE RATES

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

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The Group did not make any significant investments, acquisitions or disposals in relation to its subsidiaries and associated companies during the six months ended 28 February 2017.

TALENT REMUNERATION

As at 28 February 2017, the Group had 2,815 permanent full-time Talents (31 August 2016: 3,024 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 programs.

To attract, retain and motivate skilled and experienced Talents, the Company adopted a Co-Ownership Plan II (the "Plan") on 21 February 2015. Co-Ownership is a powerful expression of the commitment and belief our Talents have in the Group. Unlike the more traditional approach of giving stock options to a very limited group of senior executives, the Company's Co-Ownership is open to all supervisors and above level Talents, spanning the Group's operations across Hong Kong and Guangzhou. Under "Co-Ownership Plan II", we now have over 330 Co-Owners, representing a majority of our supervisors and above level Talents which constitutes over 11.9% of our entire workforce. On their own volition, they invested their personal savings in the amount of between two to twelve months of salary to acquire the Company's shares at full market price. The shares are then matched with free shares at a certain ratio vested over three years.

Please refer to "Share Incentive Scheme" on page 49 for a summary of the Plan.

NURTURING OUR GROWTH

To ensure our overall development is continuous and aligned with the future in mind, we remain committed to helping Talents grow and develop via a dynamic array of enrichment programmes. Throughout this interim period, we continued to offer a comprehensive range of opportunities so that Talents from all levels of experience and positions can pursue and develop their way to a better and fulfilling career.

Commemorating the win of substantial corporate accounts, Talents celebrate the underlying opportunities of what's ahead for personal growth and team development.

TALENT DEVELOPMENT

ANNUAL MANAGEMENT EXPERIENTIAL TRIP: SEOULMATES IN SOUTH KOREA

In October we travelled to South Korea – for our annual management experiential trip – on a mission to advance and perfect team unity. In total, 114 members of management underwent intense training from ex-Marine Corps officers at Cheorwon-gun base, a military training facility located just beyond the DMZ border. Adhering to military-level discipline, our managers transformed themselves into an orderly brigade, splitting into groups to bond and strengthen inter-departmental relationships in ways not ordinarily possible. By design, the whole programme helped intensify our camaraderie, particularly for those who joined HKBN as part of our New World Telecom acquisition in March 2016.

Additionally, we went behind-the-scenes to visit automaker KIA's cutting-edge manufacturing facilities, as well as the Gyeonggi Centre for Creative Economy & Innovation. Adding a touch of cultural fun, participants brushed up on Korean cookery, Taekwondo and K-Pop song and dance.

One final salute to celebrate a mission accomplished at Cheorwon-gun base.

NURTURING OUR GROWTH

NEXT STATION: UNIVERSITY (NSU) II

Following the success of the original NSU 2009-2014 programme (which saw 30 HKBNers realise their dreams of post-secondary studies), NSU II officially returned in January 2016 with the enrollment of 38 HKBN students. Streamlined into a three-year sponsorship programme, NSU II is empowering our Talents to fulfill their dreams of earning a Bachelor's Degree in Business from Glynŵr University, UK. In exchange for their sponsorship, NSU II students must – on top of completing the curricular requirements – initiate a three-year plan centred on career development and enrichment. In addition, the students must partake in a Corporate Social Investment (CSI) project, applying what they've learned academically for the good of our communities.

As a sponsored programme, NSU is considered a co-investment in Talent development made by the Company, respective department heads and each individual Talent.

As of this interim period, our participants have completed their first year of studies, passing all subject examinations. They have also engaged in various CSI activities to put their business knowledge to practical use.

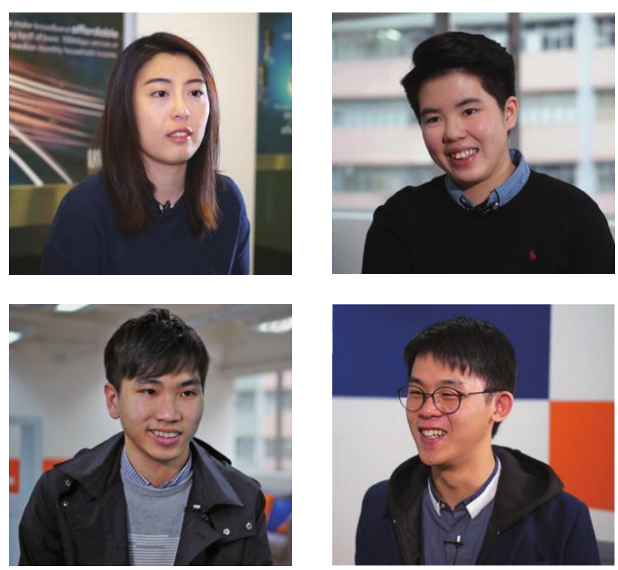
NSU II Chit-Chat Meeting; Management Committee members, department heads and supervisors came together to support our participants.

As part of their CSI commitments, our NSU II students volunteer as coaches to help disabled individuals improve their job interview skills.

GRADUATE TECHNICAL TRAINEE (GTT) DEVELOPMENT PROGRAMME: 2015-2017 TO OFFICIAL EMPLOYMENT

With succession planning in mind, the objective of the GTT development programme has been to identify and nurture a group of technical graduate trainees who can be able to step into a future management role at HKBN. Towards this end, we rolled out a high-profile recruitment campaign and a series of aptitude exercises in 2015, from which seven high potential university graduates were enlisted out of 1,185 applicants.

After 18 challenging months with the programme, a period in which our GTT participants gained broad exposure to experiences that included a variety of job rotations, immersion in business imperative projects for IT, marketing and product development initiatives, external sharing with companies such as LinkedIn, Merck Sharp & Domhe (Asia) and Bloomberg, and more, four out of the seven participants who started the programme finished their training and continued their HKBN journey as full-time Talents.



Our four GTT graduates (from left to right clockwise):

- Becky Au, Senior Officer – Product Development and Co-Owner
- Kayan Chan, Assistant Project Manager, Enterprise Solutions and Co-Owner
- David Sy, Senior Officer – Business Analysis and Co-Owner
- Ming Choi, Senior Officer – Business Analysis and Co-Owner

NURTURING OUR GROWTH

CareerGPS

Through 1-on-1 interactions, CareerGPS is helping Talents identify their future career development plans and facilitate ways they can achieve such goals. With the emphasis on understanding personal value, finding passion at work, and how to approach short and long-term career planning, we offered consultations (provided by 14 certified career facilitators) to participating Talents. Importantly, this programme has equipped Talents with the attitude to embrace ownership of their career, emphasising development based on change.

During the interim period:

- 4 Talents participated in 1-on-1 consultations
- 53 Talents participated in career sharing sessions
- 67 Talents participated in career planning workshops

To help Talents find progression in their careers, a sharing session was arranged featuring recently promoted Talents.

BE A PEOPLE'S LEADER

In order to support our succession planning capabilities, fostering a bloc of next generation leaders is imperative. Between January and June 2017, we leveraged this development programme to equip a diverse group of 60 team leaders with the supervisory skills they need to drive team productivity and performance. During the interim period, development training focused on the following:

- Skills assertiveness workshop: helped Talents identify different personalities in the workplace and understand the most effective way of communication to maximise teammate potential
- Creative thinking workshop: introduced different creative tools to enhance a leader's innovative problem solving skills
- Coaching skills: helped Talents master the latest techniques in coaching and feedback delivery to team members
- Positive leadership: Talents learnt how to apply positive psychology to achieve the best results when supervising team members
- Breakthrough training: helped Talents overcome personal limits and embrace challenges beyond their normal comfort zones

Talents joined in a leadership inducing workshop held in Guangzhou.

NURTURING OUR GROWTH

BE A PIONEER

This one-year programme was designed to both identify and nurture high potential Talents, imparting them with the vital skillsets to step into a management role. Intended to run from November 2016 to August 2017, a total of 15 Talents have undertaken development of their core leadership competencies, which have ranged from exposure to development workshops organised by external consultants, participation in Departmental Improvement Plan, to shadowing of our Management Committee members and training on presentation and creative thinking skills.

Throughout the Interim period, a total of 2,841 hours of work-related training was provided to Talents.

The kick-off ceremony for this year's "Be a Pioneer" programme took place at Panda Hotel in Tsuen Wan.

LIFE-WORK PRIORITY

Instead of work-life balance, we take a much more committed stance by upholding LIFE-work priority, where health and family always come before work. With this being a core facet of life inside HKBN, we continue to ensure that our Talents can work and live happy, fulfilled lives.

BENEFIT ENHANCEMENTS

Mindful that Talents play a critical role in our overall success, we strive to ensure that our LIFE-work priority initiatives are always functioning the way they were intended: to materially benefit our Talents. To make sure Talents can spend more time with friends and family, a number of enhanced benefits have, since September 2016, been introduced:

Enhanced Benefits

- Upgraded once a month Early-off Friday to Half-day Off Friday, allowing Talents to leave office after 12:30pm. This measure is equivalent to 6 days of paid leave annually.
- Improved Maternity Leave now provides expecting Talents with 16 weeks of full-pay leave.
- Upgraded Paternity Leave for 14 days of full-pay leave.
- Augmented Marriage Leave now provides both contract and permanent Talents with 5 days of paid leave.
- With effect starting 1 April 2017, the new Grandparenthood Leave provides Talents who become grandparents with 3 days of paid leave.

VALENTINE'S DAY EARLY OFF ARRANGEMENT

In many ways, we believe that a healthier and happier workforce will result in better quality of work and productivity. To enable our Talents to spend more time with their loved ones (whether it's a family member, a significant other or a friend) on Valentine's Day, Talents were allowed to leave one hour early at 4 p.m. instead of our normal 5 p.m.

NURTURING OUR GROWTH

MARATHON 2017

As always, we are serious about going above and beyond. For the tenth year in a row, we outperformed at Hong Kong Marathon 2017. To help some of our marathon runners nourish their need for challenges as well as surpass their personal limits, we took part in bi-weekly professional training sessions for four months from award-winning marathon coach Wong Ka Man. Augmenting our preparations, we invited a registered physio-therapist to impart his homeopathic expertise and know-how.

Braving through the challenge, a total of 128 HKBNers completed their runs of the 10 km, half marathon and marathon events.

Continuing a 10 year journey that has endured scorching suns, harsh winds and even torrential rains, 128 HKBNers took part in the Standard Chartered Hong Kong Marathon 2017.

ONE-OF-A-KIND TALENT ENGAGEMENT

Favouring open and direct discourse, our approach to communication is typified by various town hall meetings which we hold bi-annually for Talents in Hong Kong and Guangzhou. These unique gatherings of over 2,800 Talents enable our senior leadership team to share the latest business developments and gain concurrence from all levels of the company.

Coinciding with the launch of our mobile services and quad-play bundle offerings, our September 2016 Talent Meeting showcased the tremendous enthusiasm felt by all HKBNers.

AWARDS AND CERTIFICATIONS

14 awards from 2016 HKCCA Awards conferred by Hong Kong Call Centre Association

- Asia Pacific Contact Centre Association Leaders Recognition Award (Hong Kong)
- Gold Award for Best Contact Center in Training and People Development
- Gold Award for Mystery Caller Assessment Award (Residential Service Hotline)
- Gold Award for Mystery Caller Assessment Award (Residential VIP Hotline)
- Best-in-Class Award for Mystery Caller Assessment Award (Residential VIP Hotline)
- Silver Award for Off-shore Contact Center of the Year
- Silver Award for Inbound Contact Center of the Year
- Silver Award for Outbound Contact Center of the Year
- Gold Award for Contact Center Recruitment Professional of the Year (Wymen Wong, Assistant Officer – Talent Acquisition)
- Gold Award for Inbound Contact Center Team Leader of the Year (Pat Cheng, Customer Relations Supervisor)
- Gold Award for Outbound Contact Center Manager of the Year (Helen Siu, Unit Manager – Enterprise Solutions)
- Silver Award for Inbound Contact Center Team Leader of the Year (Sue So, Senior Customer Value Management Supervisor)
- Silver Award for Contact Center Quality Assurance Professional of the Year (Gelly Luk, Assistant Officer – Quality Management)
- Silver Award for Inbound Contact Center Representative of the Year (Susana Wong, Customer Relations Executive)

Encapsulating a night of achievement at the HKCCA Awards Ceremony, we walked away with a total of 14 awards.

HR Excellence Awards 2015/16 conferred by Hong Kong Institute of Human Resources Management

- Elite Employee Wellness Award

Family Friendly Employer Award 2015/16 conferred by Home Affairs Bureau & Family Council

- Awards for Innovation
- Distinguished Family-Friendly Employers
- Special Mention (Gold)
- Awards for Breastfeeding Support

OUR COMMITMENT TO CORPORATE SOCIAL INVESTMENT (CSI)

Throughout the interim period, both HKBN and our independently operated HKBN Talent CSI Fund have remained committed to co-creating a variety of new socially-viable programmes. Our aim is to engender far-reaching, long-term social impact for local youths, persons with disabilities as well as the environment.

Around 100 Talents gathered for the official kick-off of our first HKBN Volunteer Day.

THE HOPE MAKERS

In our latest venture to encourage wider eco-positive change, HKBN and the independent HKBN Talent CSI Fund have partnered with MakerBay (a local platform which provides creative workspace, tools and expertise for the community) to create The Hope Makers programme in February 2017. Fusing education with friendly competition, we invited 25 students from Hong Kong to leverage the Internet of Things (IoT) to spawn waste reduction solutions, under the auspices of HKBN Talent mentors and advisors.

Participants are immersed in a series of training activities that will equip them with design thinking skills, knowledge of the latest environmental technology trends and practical craftsmen skillsets. Each team will be expected to create a prototype using IoT solutions to reduce waste for a targeted community by at least 5%. Designs deemed to demonstrate high promise will be pitched to potential investors and end users for full product development, generating real-world impact.

Serving as mentors and advisors of The Hope Makers programme, our Talents provide guidance during a brainstorming session.

HKBN VOLUNTEER DAY 2016

Besides initiating an array of new CSI programmes, we organised our very first HKBN Volunteer Day on 10 September 2016. A total of 150 HKBN Talents put our goodwill to work for the community by volunteering their time and energy. This endeavor followed the trajectory our CSI vision emphasises time and again – preferring empowerment to simple donations. On the day, six volunteer events were held at locations peppered around the city, allowing our Talents to make an inclusive impact for beneficiaries who ranged from the elderly and the physically-disabled to the vision- and hearing-impaired.

Throughout the interim period, 239 HKBN Talents volunteered a cumulative total of 1,785 hours to serve our community.

Ethnic minority students discovered the latest wonders in technology during a visit to Hong Kong Science and Technology Parks.

Besides providing marathon training, our Talents also shared life experiences with secondary students to help them identify different paths for the future.

PARTNERSHIP WITH TSUEN WAN TRADE ASSOCIATION PRIMARY SCHOOL

Located in our Kwai Tsing neighbourhood, Tsuen Wan Trade Association Primary School is constantly mired by financial challenges and the risk of under-enrollment. Students enrolled at the school are largely recent immigrants who often come from low-income families, and cannot afford the expense of extra-curricular learning activities, all whilst the school's facilities are steadily deteriorating.

HKBN and HKBN Talent CSI Fund joined hands in late 2016 to create a better learning environment for these students, funding the school's effort to renovate its kitchen and library. In addition, our HKBN volunteers have also pledged to help provide an array of extra-curricular activities like STEM (Science, Technology, Engineering and Mathematics) classes, English cooking classes and buddy reading involvement to enrich their learning experiences.

HKBN volunteers provide tutoring in an array of extra-curricular activities like art classes for immigrant students.

INTERVIEW ON WHEELS

For persons with disabilities, finding employment can prove a daunting challenge. In December 2016, we initiated the Interview on Wheels programme, inviting 20 disabled individuals from six NGO partners to undertake three months of training. For our involvement, HKBN volunteers served as coaches to help participants set career goals, build confidence and improve their skills to perform through a tough job interview with flying colours. Pledging their commitment, our volunteers will closely follow each participant's job hunting journey and offer practical feedback throughout the training period. In July 2017, a second phase of training is planned to further benefit another 20 disabled individuals in their pursuit for self-determination.

Through simulated interviews, individuals with disabilities tested out the training they had acquired to build confidence and perfect their job hunting abilities.

YOUTH UPWARD MOBILITY (YUM) PROGRAMME

Beginning September 2016, we have joined the Hong Kong Church Network for the Poor's YUM programme in its effort to help secondary school graduates, who have under-performed in public examinations, develop their careers. For our involvement, a number of HKBN volunteers have served to mentor eight secondary school graduates in their pursuit to become certified professional broadband engineers. Through advice and encouragement provided by these mentors, our youth participants have acquired the necessary professional-level skills to serve customers on a daily basis, as well as remain competitive in their state of mind.

A new future begins as eight secondary school graduates join our YUM initiative to pursue careers as HKBN certified professional broadband engineers.

To ensure the entire learning journey is holistic and rewarding, our mentees are given time-off to continue their education and participate in community volunteer services. In the next coming year, the programme will be expanded with more diverse job opportunities as more like-minded companies are invited to join our efforts to help youths move upward in society.

AWARDS & CERTIFICATIONS

Award and Certifications	Presented by
2016 Tsuen Wan & Kwai Tsing District Caring Shop and Company Award Scheme: Outstanding Caring Shop and Company	Social Welfare Department – Tsuen Wan/Kwai Tsing District Social Welfare Office
Social Enterprise Supporter + Award	Fullness Social Enterprises Society
Caring Company Scheme – 10 Years Plus Caring Company Certification	The Hong Kong Council of Social Service

荃葵青愛心商戶及企業

2016 Supporter +
傑出支持社企機構

10 years +
商界展關懷
caringcompany
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

OUR RESPECT FOR THE ENVIRONMENT

As a responsible telecommunications company, HKBN has never stopped at raising the bar of our environmental performance. During the interim period, we've focused on introducing new measures to propel our operations to work in a more environmentally sustainable way.

GREATER ENERGY EFFICIENCY THROUGH FACILITIES IMPROVEMENT

Where possible, we exploit every opportunity to establish green measures in our offices. To this end, together with our office expansion into Chuen Kei Factory Building at Kwai Chung, timers for both the lighting and air conditioning systems were installed. As a result of this upgrade, our lighting and air conditioning are automatically set to switch off one hour after the official work day has ended for each respective department. Motion sensors were also installed inside our pantry and toilet areas to reduce unnecessary lighting in collective spaces.

To improve energy efficiency, automated timers for both lighting and air conditioning systems have been newly installed at our Chuen Kei office in Kwai Chung.

OPERATIONAL ENHANCEMENTS FOR WASTE REDUCTION

SAY NO TO PLASTIC

Throughout our activities, we have actively pursued a minimised use of plastic, both in our Talent canteen and Talent-related events. Since December 2016, new operating practices have been introduced for Broadband Delight, our canteen operated by a social enterprise. Disposable plastic cutlery and containers have been replaced by reusable equivalents. In total, we expect at least 8,500 plastic items can be spared each month. To ensure that convenience is not forfeited, we appointed a social enterprise, TWGHs "WashEasy", to provide a daily wash service whereby Talents drop off used items at designated collection bins placed throughout our office.

Our use of the WashEasy service generates about $100,000 in annual ethical consumption, an amount which funds the employment of disabled individuals. In addition, our free utensil rental service is also helping Talents reduce consumption of one-off plastic utensils, either for ordered food or during departmental gatherings.

Worth noting, we've also pledged to stop consuming plastic bottled water at our Talent-related events. With this move, we estimate that at least 3,000 plastic bottles have been saved from entering our landfills annually.

To make our HKBN a greener place, our in-house canteen has replaced disposable plastic cutlery and containers with reusable ones.

OUR RESPECT FOR THE ENVIRONMENT

UNIFORM DESIGN & PACKAGING

Noting that uniforms are indispensable to HKBN's operation, we've taken a closer look at the production process. On the design front, we consolidated different uniform designs, and looked into the uniform materials to ensure they are recycle friendly. Along with the reform of our uniform stock keeping practices, we have also prolonged each uniform's lifespan.

In a likewise fashion, we standardised all our Talent sports-related t-shirts to a single design, and asked our vendor not to incorporate any kind of plastic packaging. The same practice was also applied to our HKBN Volunteer Team t-shirts. Altogether, we reduced the number of tops produced and eliminated the use of 600 plastic bags annually.

MINIMISING FESTIVE WASTAGE

As Hong Kongers, we know that time-honoured celebrations play a significant role in our heritage. However as a responsible business, we're adopting new ways to both uphold tradition and keep excess consumption to a minimum. Under our newly introduced No Business Gift Policy, we opted to stop receiving and offering festive gifts from/to our business partners, a move that ensures our waste footprint is reduced. Any gifts received have been donated to our NGO partners and distributed with the local community in need.

Shortly after implementing our No Business Gift Policy, we donated over 20 festive hampers to the "People's Talents Bank Project" this past Christmas.

With Chinese New Year symbolising new beginnings, we leveraged the occasion to hand out 2,000 recycled red pockets to our Talents. Additionally, collection stations were set up for Talents to donate any used and unused red packets. In total, 10,000 red pockets were gathered and eventually donated to Greeners Action, a local eco-charity organisation.

SUSTAINABILITY TRAINING FOR TALENTS

From the perspective of each Talent, our ability to understand and practise sustainability is critical in ensuring that our environmental policies are sound and effective. Towards this end, we invited the Hong Kong Productivity Council to conduct Sustainability Inspiration Training, with topics covering environmental, social, and governance (ESG) requirements, effective ways to reduce business carbon footprint and green procurement, for 55 managerial-level Talents across all our business divisions. To equip our Talents with knowledge about the latest green practices, additional training and workshops are planned for the upcoming months.

To equip HKBNers with knowledge about the latest eco practices, we organise training workshops aimed at Talents from all areas of our operations.

A PEEK INSIDE HKBN

Our ability to mobilise strategies quickly and effectively stems from a willingness to embrace open and direct communication. From regularly circulated email memos and bi-annual town hall meetings to our once-a-month management meetings, members of our senior management favour an off-the-cuff approach to share business insights with Talents. Typically, this includes boldly communicating the latest updates from our business, inspired notes of advice, and even mission objectives for the future.

To: All Fellow HKBNers
From: NiQ
Date: 20 Dec 2016
Subject: "Hands-up" if you would like a promotion

In legacy companies with legacy mindsets, staff are expected to simply mindlessly execute orders from their boss and then when the boss deems it appropriate, a promotion will be offered to the staff.

This is not how we want to build up HKBN, instead, we expect that if our Talent wants a promotion, then she/he should proactively "hands up" and agree on a promotion plan with her/his supervisor. The more specific the plan the better, i.e. the KPIs and date to a specific day, should be agreed in advance and be documented and monitored accordingly.

At HKBN, we believe the best positioned people to make operational discussions are our Talents in direct contact with our customers and our network, i.e. our front line, rather than play 以訛傳訛 (Chinese whispers) up the management levels. This is why we embrace delegation of authority, as we believe that our direct reports are best positioned to make operational decisions for their sphere of customer influence. Our delegation limits are set at levels that we can "afford to lose", i.e. as a company, we will learn by "trial and error" and expect lots of little learning mistakes along the path of improvement.

As we progress up in management seniority, we should take a more strategic, more company-wide rather than functional overview, which is why it becomes even more important to delegate as seniority brings us further away from the front lines.

In short, at HKBN, if you would like a promotion, then proactively "hands up" now and set a specific roadmap for your promotion path with your supervisor.

Cheers,

NiQ Lai
Chief Talent and Financial Officer & Co-Owner
Hong Kong Broadband Network

To: All Supervisors-up (Pt3up)
From: NiQ
Date: 21 March 2017
Subject: Spending Co-Owners' Family Money

For majority of Co-Owners, our holdings in HKBN is a very important part of our family savings. Wealth creation from Co-Ownership will go towards funding our children's education, looking after our parents, our future retirement etc.

It is very important to remind ourselves this fact, whenever we sign off on any corporate expenses. It is also important for us to take pride in this fact that when we make money, we are making money for fellow Co-Owners' families.

In short, whenever we make an HKBN business decision, ask yourself: "Will my Co-Owners be proud of this decision". For me, I can be relatively relaxed when spending my own money, but I must have a higher standard of care when spending my fellow Co-Owners' money, as this is what I expect of them.

Cheers,

NiQ Lai
Chief Operating Officer & Co-Owner
Hong Kong Broadband Network

TRANSCENDING MOBILE LIMITS

Typically speaking, the time required to launch MVNO (Mobile Virtual Network Operator) services takes over a year – and even in the most diligent of circumstances, a duration of eight months is considered breakneck fast. In five short months – a period between April and late August 2016 – HKBN not only successfully entered the mobile arena, but it also heralded a number of disruptive customer-oriented features that would challenge the legacy status quo. So how did we accomplish such grand undertakings? The simple answer: with entrepreneurial determination.

Eyeing an entry into the mobile market as part of our quad-play strategy, HKBN management had a vision to launch by September 2016, just in time for the outset of our FY2017.

EMPOWERED ENTREPRENEURS

"From the start, our challenge was clear. We had just five months to make sure our mobile service would be ready before September. The prime objective evolved into a complicated exercise of prioritisation, as our team focussed on addressing tasks that were critically essential for the user experience. Out of this, new approaches to existing industry norms were introduced, like how customers can now sign up to our mobile services online," says project lead Catherine Lam, Director – Business Development & Partnership and Co-Owner.

As can be foreseen in any time-lacking endeavour, team unity and trust played a paramount role.

"Everyone understood what was at stake. Rather than back away, we each stepped up for the challenge. I credit this to the way our team felt empowered by HKBN. Across the board and at all levels, we believe empowerment isn't simply about delegating tasks, but rather it's how we work together to identify goals that we can confidently accomplish. As a leader, my job is to assist fellow teammates, providing guidance when necessary, as they fulfill their goals with ample autonomy," Catherine remarks.

"When you have empowerment, a true sense of ownership comes alive; Talents feel inspired to unleash their 'can do' passion to put their creative fingerprints all over a project. In many ways, this is similar to the entrepreneurial spirit: every entrepreneur has passion and belief in what they do," she adds.

A NEWCOMERS PERSPECTIVE

Contrary to conventional thinking, some of the core team members' lack of experience in mobile service helped set this project apart.

"We didn't have the baggage that comes from legacy experience," explains Samuel Hui, Manager – Business Analysis & Marketing and Co-Owner, "Our team embraced the mission from a completely new perspective. Despite the urgency to work as efficiently as possible, we saw this as an opportunity to inject innovation by benchmarking beyond the mobile industry."

"The truth is Hong Kong's mobile industry has had things easy over the past decade. It's been the same old tariffs, the same old customer service approach. So, on top of providing exceptional price value, we wanted to give consumers a transcendent experience that was better overall," he says.

"For us, customers come first. We introduced an unprecedented 180-day deferred start option for our services (accommodating a customer's pre-existing contract to end). With our 14-day cooling off period, customers are free to try our services and stay when they feel satisfied with HKBN. We introduced no-contract plans at par price to give customers the right to freely choose their service providers, and even enabled a fully online registration process that allows users to submit documentation without ever leaving their doorsteps," Samuel adds proudly.

CHANGE THE MARKET

"In just seven short months after launch, we achieved something few could imagine: we attracted over 100,000 registered mobile subscribers," says Karen Chan, Senior Manager – Business Development & Partnership, "It's important to note that we accomplished this as a new challenger in an extremely competitive industry."

"We brought forward exceptional value, and consumers have responded! The amazing thing is we've only started. As we continue evolving, the entrepreneurial spirit will remain a driving force behind our mobile strategies," Karen proclaims.

Karen Chan
Senior Manager –
Business Development & Partnership

Samuel Hui
Manager –
Business Analysis & Marketing
and Co-Owner

Catherine Lam
Director –
Business Development & Partnership
and Co-Owner

TRANSCENDING MOBILE LIMITS

A 'can do' entrepreneurial mindset was key in enabling us to launch our mobile services in just five months.

EXTRAORDINARY CIRCUMSTANCES

In order to have the feature-rich service ready for customers on launch day, a vast checklist of automated processes must be defined, developed, tested and finally rolled out. Involved in everything from SIM card logistics, creating an order submission system that could cater to online, retail and telesales operations, to mobile number porting and everything in between, IT's role has been indispensable throughout.

The extraordinarily limited amount of time that was available required the IT Department to take a drastic departure from the norm.

"Rather than wait for service requirements to be disseminated by our various teams, like we typically do, my team and I participated in all meetings from project start to end. This ensured that we could immediately address the viability of ideas proposed by teammates from marketing, sales, business process management and others. We simply didn't have the luxury of time. Instead, we were all working together in-sync at every step; We actively communicated ideas, bringing IT's perspective to the table, as well as propose the best approach in shaping our mobile service front and back-end systems," comments Kent Kwong, Manager – Information Technology.

"Looking back, to say it was a difficult task would be an understatement. But because I've been with HKBN since 2005, serving as the IT lead for this project, I had good working knowledge of which Talents I could turn to for executing a specific task. A project manager's duty is to identify the expertise needed for a given job and delegate those tasks accordingly. This more than made up for our relative inexperience in mobile service," he states.

CREATIVITY UNLEASHED

With every new project, the Business Process Management (BPM) team works to find the best possible balance between the experiences of customers and those of HKBN's sales and customer service teams. Perhaps epitomising HKBN's newcomer status for the mobile market, the team lives by the axiom 'past experiences should never limit what you do'.

Keeping tune with this sentiment, the BPM team saw HKBN's entry into mobile as a clean slate opportunity to embrace better customer-centric ideas.

Kent Kwong
Manager - IT

"The majority of our work examined the process that ensues after a customer completes their registration. Being new to the market meant we didn't have to mimic wholesale how things were being done. Our team of 13 Talents spent a good amount of time testing and trialling service experiences from the existing mobile providers. In many ways, it was a highly creative process; we evaluated the good and the bad, brainstorming ways we could improve and prioritise given the lack of time," explains Fantastine Shum, Senior Manager – Business Process Management.

"As a result, we were able to enhance the registration process by first (at launch) allowing customers to pick up their SIM cards from SF-Express shops and our salespeople, and later, by also delivering the SIM to each customer via mail," she says.

"The key is to think of ourselves from the vantage point of the customer. For example, it's a long established industry requirement that customers must visit a carrier's retail shop to provide ID documentation. Sidestepping all this, our convenient online portal allows customers to upload their documents for number porting purposes. This has made life easier for our customers, as we've been able to reduce the amount of time needed," remarks Woody Ho, Senior Officer – Business Process Management.

"Throughout this process, we've learned to objectively examine existing practices, and more importantly, question whether just doing the same is enough. We see things being done that are, by today's standards, far too conventional. What we sought to do was find ways to step outside the box, and I believe, this is the true HKBN spirit," he comments.

Fantastine Shum
Senior Manager –
Business Process Management

Woody Ho
Senior Officer –
Business Process Management

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 29 to 47 which comprises the consolidated statement of financial position of HKBN Ltd. (the "Company") as of 28 February 2017 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 2017 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

20 April 2017

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2017 – UNAUDITED

(Expressed in Hong Kong dollars)

	Note	Six months ended 28 February 2017 $'000	Six months ended 29 February 2016 $'000
Revenue	4	**1,534,726**	1,225,539
Other net income	5(a)	**6,907**	8,194
Network costs and costs of sales		**(303,857)**	(136,504)
Other operating expenses		**(1,032,577)**	(847,045)
Finance costs	5(c)	**(116,922)**	(66,336)
Share of profits of associates		**2,027**	–
Share of losses of joint ventures		**(461)**	(396)
Profit before taxation	5	**89,843**	183,452
Income tax	6	**(43,809)**	(48,200)
Profit for the period attributable to equity shareholders of the Company		**46,034**	135,252
Earnings per share	7		
Basic		**4.6 cents**	13.5 cents
Diluted		**4.6 cents**	13.5 cents

The notes on pages 35 to 47 form part of this interim financial report. Details of dividend payable to equity shareholders of the Company are set out in note 13.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2017 – UNAUDITED

(Expressed in Hong Kong dollars)

	Six months ended	
	28 February 2017 $'000	29 February 2016 $'000
Profit for the period	**46,034**	135,252
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	**(2,934)**	(2,241)
Total comprehensive income for the period attributable to equity shareholders of the Company	**43,100**	133,011

The notes on pages 35 to 47 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 28 FEBRUARY 2017 – UNAUDITED

(Expressed in Hong Kong dollars)

	Note	At 28 February 2017 $'000	At 31 August 2016 $'000
Non-current assets			
Goodwill		**1,771,969**	1,771,969
Intangible assets		**1,691,908**	1,550,209
Property, plant and equipment	8	**2,380,287**	2,419,890
Interest in associates		**9,500**	7,473
Interest in joint ventures		**9,248**	9,708
Other non-current assets		**25,512**	19,618
		5,888,424	5,778,867
Current assets			
Inventories		**35,681**	50,541
Trade receivables	9	**168,391**	148,064
Other receivables, deposits and prepayments	9	**244,201**	271,560
Amount due from a joint venture		**6,984**	761
Cash and cash equivalents	10	**273,437**	354,955
		728,694	825,881
Current liabilities			
Trade payables	11	**158,882**	107,550
Other payables and accrued charges – current portion	11	**338,638**	448,757
Deposits received		**54,989**	54,454
Deferred services revenue – current portion		**56,186**	50,672
Obligations under granting of rights – current portion		**9,024**	9,024
Amount due to an associate		**1,426**	2,165
Amounts due to joint ventures		**10,000**	10,000
Contingent consideration – current portion		**20,562**	18,091
Tax payable		**73,859**	125,073
		723,566	825,786
Net current assets		**5,128**	95
Total assets less current liabilities		**5,893,552**	5,778,962

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 28 FEBRUARY 2017 – UNAUDITED

(Expressed in Hong Kong dollars)

	Note	At 28 February 2017 $'000	At 31 August 2016 $'000
Non-current liabilities			
Other payables and accrued charges – long-term portion	11	**293,055**	99,008
Deferred services revenue – long-term portion		**62,534**	55,923
Obligations under granting of rights – long-term portion		**38,355**	42,867
Deferred tax liabilities		**425,405**	450,980
Contingent consideration – long-term portion		**18,583**	27,885
Provision for reinstatement costs		**15,932**	17,644
Bank loans	12	**3,827,111**	3,721,297
		4,680,975	4,415,604
NET ASSETS		**1,212,577**	1,363,358
CAPITAL AND RESERVES	13		
Share capital		**101**	101
Reserves		**1,212,476**	1,363,257
TOTAL EQUITY		**1,212,577**	1,363,358

Approved and authorised for issue by the board of directors on 20 April 2017.

William Chu Kwong YEUNG) Directors

Ni Quiaque LAI)

The notes on pages 35 to 47 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2017 – UNAUDITED

(Expressed in Hong Kong dollars)

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Other reserve $'000	(Accumulated losses)/ retained profits $'000	Exchange reserve $'000	Total $'000
		Attributable to equity shareholders of the Company						
Balance at 1 September 2015		101	930,526	1,531	596,420	(12,407)	(1,984)	1,514,187
Changes in equity for the six months ended 29 February 2016:								
Profit for the period		–	–	–	–	135,252	–	135,252
Other comprehensive income		–	–	–	–	–	(2,241)	(2,241)
Total comprehensive income		–	–	–	–	135,252	(2,241)	133,011
Dividend approved in respect of the previous year	13(a)(ii)	–	(201,133)	–	–	–	–	(201,133)
Equity-settled share-based transactions	13(c)	–	–	4,354	–	–	–	4,354
Balance at 29 February 2016 and 1 March 2016		101	729,393	5,885	596,420	122,845	(4,225)	1,450,419
Changes in equity for the six months ended 31 August 2016:								
Profit for the period		–	–	–	–	109,427	–	109,427
Other comprehensive income		–	–	–	–	–	(2,606)	(2,606)
Total comprehensive income		–	–	–	–	109,427	(2,606)	106,821
Dividend declared in respect of the current year	13(a)(i)	–	(201,133)	–	–	–	–	(201,133)
Equity-settled share-based transactions	13(c)	–	–	7,251	–	–	–	7,251
Balance at 31 August 2016 and 1 September 2016		101	528,260	13,136	596,420	232,272	(6,831)	1,363,358
Changes in equity for the six months ended 28 February 2017:								
Profit for the period		**–**	**–**	**–**	**–**	**46,034**	**–**	**46,034**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(2,934)**	**(2,934)**
Total comprehensive income		**–**	**–**	**–**	**–**	**46,034**	**(2,934)**	**43,100**
Dividend approved in respect of the previous year	13(a)(ii)	**–**	**(201,133)**	**–**	**–**	**–**	**–**	**(201,133)**
Equity-settled share-based transactions	13(c)	**–**	**–**	**7,252**	**–**	**–**	**–**	**7,252**
Balance at 28 February 2017		**101**	**327,127**	**20,388**	**596,420**	**278,306**	**(9,765)**	**1,212,577**

The notes on pages 35 to 47 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2017 – UNAUDITED

(Expressed in Hong Kong dollars)

	Six months ended	
	28 February 2017 $'000	29 February 2016 $'000
Operating activities		
Cash generated from operations	**480,332**	462,707
Hong Kong Profits Tax paid	**(118,307)**	(54,147)
Tax paid outside Hong Kong	**(2,292)**	(1,947)
Purchase of tax reserve certificate	**–**	(208)
Net cash generated from operating activities	**359,733**	406,405
Investing activities		
Payment for purchase of property, plant and equipment	**(196,616)**	(177,931)
Proceeds from sale of property, plant and equipment	**1,602**	1,054
Payment for contingent consideration	**(7,830)**	(2,457)
Other cash flows arising from investing activities	**89**	647
Net cash used in investing activities	**(202,755)**	(178,687)
Financing activities		
Proceeds from bank loans	**3,820,690**	–
Repayment of bank loans	**(3,800,000)**	–
Interest paid on bank loans	**(46,038)**	(37,667)
Interest paid on interest-rate swap	**(10,769)**	(14,336)
Increase in amount due to an associate	**345**	–
Proceeds from initial public offering payable to the former substantial shareholder	**–**	(33,372)
Dividend paid	**(201,133)**	(201,133)
Net cash used in financing activities	**(236,905)**	(286,508)
Net decrease in cash and cash equivalents	**(79,927)**	(58,790)
Cash and cash equivalents at the beginning of the period	**354,955**	328,950
Effect of foreign exchange rate changes	**(1,591)**	889
Cash and cash equivalents at the end of the period	**273,437**	271,049

The notes on pages 35 to 47 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 20 April 2017.

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.

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 2016, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016. 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 28.

The financial information relating to the financial year ended 31 August 2016 that is included in the interim financial report as comparative information does not constitute the Group's financial statements for that financial year but is derived from those financial statements.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the group.

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

None of these 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.

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 revenue and profit from operations of the Group are primarily derived from its activities in Hong Kong.

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE

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.

Revenue 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 during the period is as follows:

	Six months ended	
	28 February 2017 $'000	29 February 2016 $'000
Residential revenue	**941,025**	898,951
Enterprise revenue	**569,222**	269,381
Product revenue	**24,479**	57,207
	1,534,726	1,225,539

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

5 PROFIT BEFORE TAXATION

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

	Six months ended	
	28 February 2017 $'000	29 February 2016 $'000
(a) Other net income		
Interest income	**(89)**	(647)
Net foreign exchange gain	**(1,813)**	(1,802)
Amortisation of obligations under granting of rights	**(4,512)**	(4,512)
Change in fair value of contingent consideration	**999**	–
Other income	**(1,492)**	(1,233)
	(6,907)	(8,194)

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION (CONTINUED)

	Six months ended	
	28 February 2017 $'000	29 February 2016 $'000
(b) Talent costs		
Salaries, wages and other benefits	432,417	342,343
Contributions to defined contribution retirement plan	28,361	24,304
Equity-settled share-based payment expenses	7,252	4,354
Cash-settled share-based payment expenses	328	289
	468,358	371,290
Less: Talent costs capitalised as property, plant and equipment	(17,043)	(13,279)
Talent costs included in advertising and marketing expenses	(205,251)	(134,942)
	246,064	223,069

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 2017 $'000	29 February 2016 $'000
(c) Finance costs		
Interest on bank loans	53,862	45,884
Interest on interest-rate swap, net	10,769	13,959
Fair value (gain)/loss on interest-rate swap	(21,106)	6,493
Originating fee for banking facility expired (note 12)	73,397	–
	116,922	66,336

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION (CONTINUED)

	Six months ended	
	28 February 2017 $'000	29 February 2016 $'000
(d) Other items		
Advertising and marketing expenses	**294,938**	222,367
Depreciation	**209,684**	178,654
Loss on disposal of property, plant and equipment, net	**1,367**	242
Impairment losses on trade receivables	**16,921**	8,933
Amortisation of intangible assets	**78,601**	56,557
Operating lease charges in respect of land and buildings: minimum lease payments	**23,595**	17,340
Operating lease charges in respect of telecommunications facilities and computer equipment: minimum lease payments	**108,899**	61,415
Research and development costs	**10,826**	8,389
Cost of inventories	**20,567**	40,007
Transaction costs in connection with business combination	**–**	26,914

6 INCOME TAX

	Six months ended	
	28 February 2017 $'000	29 February 2016 $'000
Current tax – Hong Kong Profits Tax	**67,342**	67,581
Current tax – Outside Hong Kong	**2,042**	1,952
Deferred tax	**(25,575)**	(21,333)
	43,809	48,200

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 29 February 2016: 16.5%) to the six months ended 28 February 2017. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

(Expressed in Hong Kong dollars unless otherwise indicated)

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $46,034,000 (six months ended 29 February 2016: profit of $135,252,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,000,689,000 ordinary shares (six months ended 29 February 2016: 1,000,000,000 ordinary shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $46,034,000 (six months ended 29 February 2016: profit of $135,252,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II after adjusting for the dilutive effect of the Company's Co-Ownership Plan II, calculated as follows:

	Six months ended	
	28 February 2017 '000	29 February 2016 '000
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,000,689**	1,000,000
Effect of the Co-Ownership Plan II	**2,367**	1,761
Weighted average number of ordinary shares (diluted)	**1,003,056**	1,001,761

8 PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 28 February 2017, the Group's additions of property, plant and equipment with a cost of $173,185,000 (six months ended 29 February 2016: $195,430,000), including the telecommunication, computer and office equipment of $167,017,000 (six months ended 29 February 2016: $188,444,000).

During the six months ended 28 February 2017, the Group disposed of certain property, plant and equipment with a net book value of $2,969,000 (six months ended 29 February 2016: $1,296,000), resulting in a loss on disposal of $1,367,000 (six months ended 29 February 2016: loss on disposal of $242,000).

(Expressed in Hong Kong dollars unless otherwise indicated)

9 TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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 28 February 2017 $'000	At 31 August 2016 $'000
Within 30 days	**105,116**	103,144
31 to 60 days	**37,780**	26,825
61 to 90 days	**16,588**	10,419
Over 90 days	**8,907**	7,676
Trade receivables, net of allowance for doubtful debts	**168,391**	148,064
Other receivables, deposits and prepayments	**244,201**	271,560
	412,592	419,624

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.

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 $16,801,000 (31 August 2016: $15,349,000), are expected to be recovered or recognised as expenses within one year.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement comprise:

	At 28 February 2017 $'000	At 31 August 2016 $'000
Cash at bank and in hand	**273,437**	354,955

(Expressed in Hong Kong dollars unless otherwise indicated)

11 TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

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

	At 28 February 2017 $'000	At 31 August 2016 $'000
Within 30 days	**40,638**	30,306
31 to 60 days	**32,395**	14,019
61 to 90 days	**25,701**	17,472
Over 90 days	**60,148**	45,753
Trade payables	**158,882**	107,550
Other payables and accrued charges	**631,693**	547,765
	790,575	655,315
Less: Long-term portion of other payables and accrued charges	**(293,055)**	(99,008)
	497,520	556,307

12 BANK LOANS

At 31 August 2016, the Group has term and revolving credit facilities agreement of $4,000,000,000 in aggregate with various international banks.

At 31 August 2016, the Group has bank loans with principal amount of $3,800,000,000 in total. The bank loans are interest-bearing at Hong Kong Inter-bank Offered Rate plus a margin of 1.85%-2.06% per annum payable quarterly. The maturities of these loans were on 20 January 2020 and 31 March 2021.

At 28 November 2016, the Group has drawn a bank loan with principal amount of $3,900,000,000 ("New Bank Loan") and repaid the bank loans with principal amount of $3,800,000,000. The New Bank Loan is interest-bearing at Hong Kong Inter-bank Offered Rate plus a margin of 1.35% per annum payable quarterly.

Upon repayment, the bank loans with principal amount of $3,800,000,000 were extinguished and the unamortised transaction cost of $73,397,000 was recorded within the finance costs in the consolidated income statement (note 5(c)) for the period ended 28 February 2017.

The New Bank Loan is recognised initially at fair value less attributable transactions costs. Subsequent to initial recognition, the New Bank Loan is stated at amortised cost with any difference between the amount initially recognised and interest payable using the effective interest method.

The effective interest rate of the New Bank Loan as of 28 February 2017 is 2.75% (2016: 2.9% – 3.1%) and the amortised cost of the New Bank Loan is $3,827,111,000 (2016: $3,721,297,000).

The New Bank Loan is unsecured and covered by a cross guarantee arrangement issued by the Company, Metropolitan Light Company Limited ("MLCL"), HKBN Group Limited and Hong Kong Broadband Network Limited, and repayable in full upon maturity on 28 November 2021.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	Six months ended	
	28 February 2017 $'000	29 February 2016 $'000
Interim dividend declared after the interim period of 22 cents per ordinary share (six months ended 29 February 2016: 20 cents per ordinary share)	**221,247**	201,133

The interim dividend declared has not been recognised as a liability at the end of the reporting period.

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

	Six months ended	
	28 February 2017 $'000	29 February 2016 $'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 20 cents per ordinary share (six months ended 29 February 2016: 20 cents per ordinary share)	**201,133**	201,133

(b) Other reserve

The entire issued share capital of MLCL was transferred to the Company in consideration for an issue of the Company's shares to Metropolitan Light Holdings Limited on 17 February 2015 (the "Share Transfer"). Upon completion of the Share Transfer, the Company became 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.

(c) Equity-settled share-based transactions

On 21 February 2015, the Company adopted the Co-Ownership Plan II (the "Plan") and granted Restricted Share Units ("RSUs") to directors and Talents of the Group in Hong Kong. The purpose of the Plan is to attract, retain and motivate skilled and experienced Talents of the Group. The RSUs are the contingent rights to receive the Company's shares at the relevant matching ratio in respect of any shares purchased by the Talents, subject to certain terms, conditions and undertakings. The share are held on trust by the appointed trustee until their release to the beneficiaries upon the vesting of the RSUs.

On 29 June 2015 and 18 August 2015, 2,723,000 RSUs and 133,000 RSUs were granted to directors and Talents of the Group in Hong Kong by the Company under the Plan respectively. The directors estimated the weighted average fair value of each RSU at the grant date to be $8.50.

13 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Equity-settled share-based transactions (continued)

On 20 November 2015, 158,000 RSUs were granted to Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU at the grant date to be $10.28.

On 20 June 2016, 2,082,000 RSUs were granted to directors and Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU of the grant date to be $8.10.

On 20 January 2017, 400,472 RSUs were granted to directors and Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU of the grant date to be $8.17.

The shares are held on trust by the appointed trustee until their release to the beneficiaries upon the vesting of the RSUs. 25%, 25% and 50% of these RSUs will vest on the first, second and third anniversary of the grant date respectively.

The fair value of services received in return for RSUs granted is measured by reference to the fair value of RSUs granted. The estimate of the fair value of the RSUs granted is measured based on a binomial lattice model.

The expected dividends during the vesting period have been taken into account when measuring the fair value of the RSUs. The dividends paid from the Company's ordinary shares underlying the RSUs would be accrued and paid to the RSUs plan participants upon vested.

RSUs were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the RSUs granted.

14 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 end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair 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

(Expressed in Hong Kong dollars unless otherwise indicated)

14 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(i) Fair value hierarchy (continued)

	Fair value at 28 February 2017 $'000	Fair value measurement as at 28 February 2017 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instrument:				
– Interest-rate swap	**8,227**	**–**	**8,227**	**–**
Contingent consideration	**39,145**	**–**	**–**	**39,145**

	Fair value at 31 August 2016 $'000	Fair value measurement as at 31 August 2016 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instrument:				
– Interest-rate swap	29,333	–	29,333	–
Contingent consideration	45,976	–	–	45,976

During the six months ended 28 February 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: $Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(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 end of the reporting period, 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 at 28 February 2017 is determined considering the expected payment, discounted to present value using a risk-adjusted discount rate of 2.8% (2016: 2.8%).

14 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(iii) Information about Level 3 fair value measurement (continued)

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

	At 28 February 2017 $'000	At 31 August 2016 $'000
Contingent consideration		
At the beginning of the period/year	45,976	2,457
Acquisition of subsidiaries	–	48,000
Settlement of contingent consideration for the period/year	(7,830)	(4,481)
Change in fair value during the period/year	999	–
At the end of the period/year	39,145	45,976
Contingent consideration – current portion	20,562	18,091
Contingent consideration – long-term portion	18,583	27,885
Total contingent consideration	39,145	45,976

(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 2017 and 31 August 2016.

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

	At 28 February 2017 $'000	At 31 August 2016 $'000
Purchase of telecommunications, computer and office equipment		
Contracted but not provided for	176,563	190,925

16 CONTINGENT LIABILITIES

	At 28 February 2017 $'000	At 31 August 2016 $'000
Bank guarantee in lieu of payment of utility deposits	3,622	3,622

At 28 February 2017 and 31 August 2016, 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 2016: $Nil).

(Expressed in Hong Kong dollars unless otherwise indicated)

16 CONTINGENT LIABILITIES (CONTINUED)

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

17 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 2017 $'000	29 February 2016 $'000
Short-term employee benefits	**19,116**	14,797
Post-employment benefits	**1,292**	1,238
Equity compensation benefits	**1,787**	939
	22,195	16,974

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 28 February 2017, the Directors and chief executives of the Company had the following interests and short positions in the shares, underlying shares (in respect of positions held pursuant to equity derivatives), and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) were otherwise required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers"(the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules"):

LONG POSITION

Ordinary shares of $0.0001 each in the Company

Name of Director		Number of shares held	Number of underlying shares held under equity derivatives (Note 1)	Total number of shares held	Percentage of the issued share capital of the Company
Mr. Bradley Jay HORWITZ	(Note 2)	100,000	–	100,000	0.01%
Mr. William Chu Kwong YEUNG	(Note 3)	26,712,915	373,512	27,086,427	2.69%
Mr. Ni Quiaque LAI	(Note 4)	32,744,282	252,840	32,997,122	3.28%

Notes:

1. These represent the number of restricted share units (the "RSU") which will be vested in such Directors under the Co-Ownership Plan II adopted by the Company on 21 February 2015.

2. Mr. Bradley Jay HORWITZ is personally interested in 100,000 ordinary shares.

3. Among 27,086,427 ordinary shares which Mr. William Chu Kwong YEUNG are personally interested in, 373,512 RSUs that were granted to him pursuant to the Co-Ownership Plan II adopted by the Company on 21 February 2015, which were subject to certain vesting conditions, remained unvested.

4. Among 32,997,122 ordinary shares which Mr. Ni Quiaque LAI are personally interested in, 252,840 RSUs that were granted to him pursuant to the Co-Ownership Plan II adopted by the Company on 21 February 2015, which were subject to certain vesting conditions, remained unvested.

Other than the interests disclosed above, none of the Directors nor the chief executives nor their associates had any interests or short positions in any shares, underlying shares (in respect of positions held pursuant to equity derivatives) or debentures of the Company or any of its associated corporations as at 28 February 2017.

SHARE INCENTIVE SCHEME

CO-OWNERSHIP PLAN II (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 of Directors (the "Board") may, in its absolute discretion, invite participants to purchase shares of the Company and agree to grant them a contingent right to receive shares (i.e. RSU) at the relevant matching ratio in respect of any shares purchased, subject to certain terms, conditions and undertakings. The total number of shares that may underlie the RSUs granted pursuant to the Plan shall be (i) 10% of the shares in issue on the Listing Date or (ii) 10% or less of the shares in issue as at the date following the date of approval of the renewed limit (as the case may be). The 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 ordinary 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.

Details of movements of the Plan during the six months ended 28 February 2017 are as follows:

		Number of RSUs										
								To be vested on 24 January/ 20 June/ 29 June/ 18 August/ 20 November (As at 28 February 2017)				
Participants	Date of grant	Granted	As at 1 September 2016	Granted during the period	Forfeited during the period	Vested during the period	As at 28 February 2017	2016	2017	2018	2019	2020
Mr. William Chu Kwong YEUNG*	29 June 2015	238,608	178,956	–	–	–	178,956	–	59,652	119,304	–	–
Mr. Ni Quiaque LAI*	29 June 2015	158,132	118,599	–	–	–	118,599	–	39,533	79,066	–	–
Other Participants	29 June 2015	2,326,246	1,631,790	–	146,282	–	1,485,508	–	495,063	990,445	–	–
Other Participants	18 August 2015	273,612	205,226	–	–	–	205,226	–	68,386	136,840	–	–
Other Participants	20 November 2015	158,567	22,791	–	1,359	5,696	15,736	–	5,243	10,493	–	–
Mr. William Chu Kwong YEUNG*	20 June 2016	194,556	194,556	–	–	–	194,556	–	48,639	48,639	97,278	–
Mr. Ni Quiaque LAI*	20 June 2016	134,241	134,241	–	–	–	134,241	–	33,560	33,560	67,121	–
Other Participants	20 June 2016	1,752,685	1,749,104	–	190,258	–	1,558,846	–	389,661	389,661	779,524	–
Other Participants	24 January 2017	400,472	–	400,472	10,201	–	390,271	–	–	97,554	97,554	195,163
Total		**5,637,119**	**4,235,263**	**400,472**	**348,100**	**5,696**	**4,281,939**	**–**	**1,139,737**	**1,905,562**	**1,041,477**	**195,163**

* *Director of the Company*

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the "Share Incentive Scheme", at no time during the six months ended 28 February 2017 was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 28 February 2017, to the best knowledge of the Directors and chief executives of the Company, the following persons (other than any Directors or chief executives of the Company) were substantial shareholders, had notified the Company of their relevant interests in shares and underlying shares (in respect of positions held pursuant to equity derivatives) representing 5% or more of the issued share capital of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO:

LONG POSITION

Ordinary shares of $0.0001 each in the Company

Name of shareholder	Note	Number of ordinary shares beneficially held	Percentage of the issued voting shares of the Company
Canada Pension Plan Investment Board	(a)	181,048,500	18.00%
GIC Private Limited	(b)	92,403,797	9.19%
The Capital Group Companies, Inc.	(c)	80,535,500	8.01%
Matthews International Capital Management, LLC	(d)	60,350,000	6.00%
Mondrian Investment Partners Limited	(e)	56,390,500	5.61%

Notes:

(a) Canada Pension Plan Investment Board is the beneficial owner of 181,048,500 ordinary shares of the Company.

(b) 92,403,797 ordinary shares are held by GIC Private Limited in the capacity of investment manager.

(c) The Capital Group Companies, Inc. through its subsidiaries, namely Capital International, Inc., Capital International Limited, Capital International Sarl, and Capital Research and Management Company held 194,500 ordinary shares, 2,011,000 ordinary shares, 132,500 ordinary shares, and 78,197,500 ordinary shares in the Company respectively, and are accordingly deemed to be interested in the respective shares held by the aforesaid companies.

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

(e) 56,390,500 ordinary shares are controlled by Mondrian Investment Partners Limited in the capacity of investment manager.

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares (in respect of positions held pursuant to equity derivatives) of the Company as at 28 February 2017.

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

During the six months ended 28 February 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 22 cents (29 February 2016: 20 cents) per share for the six months ended 28 February 2017 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 10 May 2017. The interim dividend will be payable in cash on Monday, 15 May 2017.

The dividend policy of the Company is to pay dividends in an amount of not less than 90% of the Adjusted Free Cash Flow with an intention to pay 100% of the Adjusted Free Cash Flow in respect of the relevant year/period, after adjusting for potential debt repayment, if required. The Company has recommended to pay above this range at 116% of the Adjusted Free Cash Flow for this interim period due to timing difference of tax payment in 1H2017.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed with the management and the external auditor the unaudited interim results of the Group for the six months ended 28 February 2017, the accounting principles and practices adopted by the Group, as well as discussion on auditing, internal control, risk management and financial reporting matters of the Group.

The unaudited interim financial report of the Group for the six months ended 28 February 2017 has been reviewed by the Company's external auditor in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of interim financial information performed by the independent auditor of the entity*" issued by the HKICPA and reviewed by the Audit Committee of the Company.

UPDATE ON DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the Directors of the Company is set out below:

Mr. Lai Ni Quiaque, an Executive Director of the Company and formerly the Chief Talent & Financial Officer of the Group, was appointed as the Chief Operating Officer of the Group on 1 March 2017.

OTHER INFORMATION

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 Listing Rules on the Stock Exchange throughout the six months ended 28 February 2017 except for the following deviation:

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

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 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 for the six months ended 28 February 2017.

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

Hong Kong, 20 April 2017

HKBN Ltd.
香港寬頻有限公司

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