香港寬頻
HONG KONG BROADBAND NETWORK

Topping the List Among Broadband and Pay TV Platforms

Serving Up Awards with Our Ocean Park Partnership

Interim Report 2018

Speedtest Names HKBN the Fastest Broadband Provider in Hong Kong

HKBN Mobile Services Blows Past 200,000 Subscriptions in Just 10 Months

HKBN Enterprise Solutions Extends Fibre Coverage to 19 Wharf Commercial Buildings

HKBN and TVB Strengthen Strategic Partnership for HK and Overseas OTT Markets

HKBNES Ups the Ante to Grow Enterprise Market Share

HKBN and VTech Win Gold Prize at EIA 2016

Executing on Our J-Curve Growth

Making the Right Call with Award Winning Customer Service

HKBN in South Korea: From Elite Sports Team to Elite Brigade Force

Forget Outsourcing, Talent Engagement Done Right in Guangzhou

Freedom to Choose: Say Goodbye to Lengthy Contracts

Honoring Our New Grandparents with 3 Days Off

Going Fast & Generous in Taiwan for Charity

Xie Xie, But No Thanks… Why We're Turning Down Mooncakes

HKBN Ltd.
香港寬頻有限公司

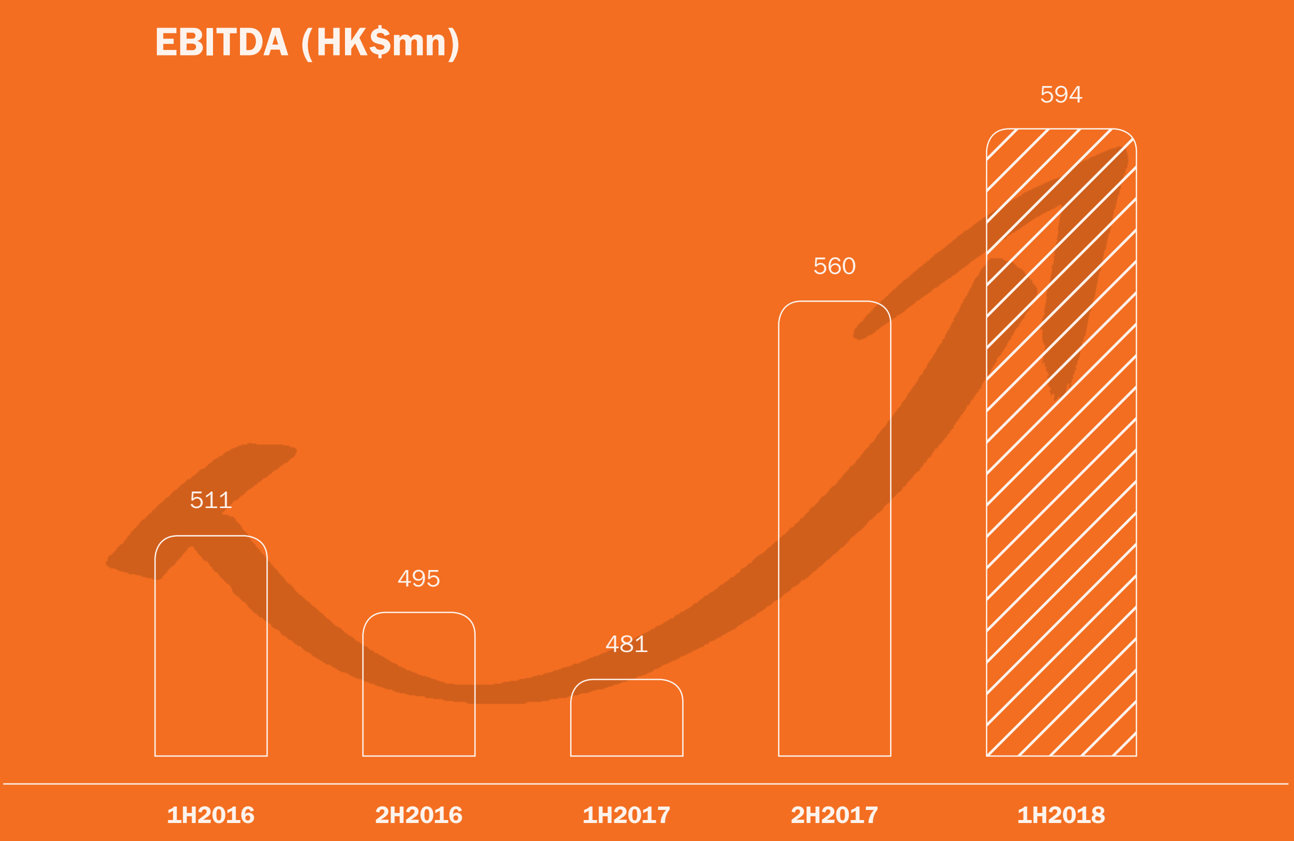
(incorporated in the Cayman Islands with limited liability)
Stock Code:1310

Executing on J-Curve Growth

Ever since the beginning of FY16, HKBN embarked on a financial J-Curve transformation to ensure long term profitability and growth via quad-play services for the residential market, and through doubling our enterprise presence with the acquisition of New World Telecom ("NWT").

While this transition required start-up investment, our quad-play 4-in-1 stickiness empowered us to drive a noteworthy ARPU* increase at the start of FY17, and is contributing a significant EBITDA^ rise in 1H2018.

The 1H2018 EBITDA chart depicted below illustrates how we are on track with executing our J-Curve strategy, namely of initial investment and now on the turnaround to harvest growth. At this phase, we are proudly reaping substantial growth for HKBN's business.



*ARPU: Average Revenue Per User

^EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortisation

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

◉ Get to know our mission, business, people and achievements

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

Ms. Maria Amy TAM

Authorised Representatives

Mr. Ni Quiaque LAI
Ms. Maria Amy TAM

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

Corporate Information

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, Champion Tower
3 Garden Road, Central
Hong Kong

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

Company's Website

www.hkbnltd.net

Stock Code

1310

Dear Fellow Shareholders,

Taking profitable market share from the legacy incumbent as to deliver Group revenue, EBITDA and DPS[2] year-on-year growth of 22%, 23% and 18%.

For the six months ended 28 February 2018 ("1H2018"), we executed on our ATM[1] strategy taking profitable market share from the legacy incumbent as to deliver Group revenue, EBITDA and DPS[2] year-on-year growth of 22%, 23% and 18%. We grabbed market share by delivering disruptive value, just like how we have saved Hong Kongers from exorbitant prices on International Direct Dial ("IDD") in the 1990s and fixed telecom services in the 2000s. Today, we are making a big impact on the full suite of quad-play services for broadband, fixed-voice, OTT (over-the-top) content and mobile. To us, it makes no sense to charge separately for these services when we can provide one integrated bill to our customers.

In enterprise, the full integration of NWT acquisition we made in 2016 is really paying off. For the six months ended 28 February 2018, we grew enterprise revenues by 19% year-on-year to $679 million, which we believe, makes us the fastest growing competitor to the legacy incumbent.

At HKBN, our strongest Legal Unfair Competitive Advantage ("LUCA") is our shareholder alignment via our Co-Ownership programme; none of our competitors have anything similar. Today, HKBN is run by over 310 Co-Owners; none of us get upside from our ownership without risking our family's wealth ("skin in the game"). In particular, for the two of us, a great majority of our family net worth is invested in HKBN stock and our annual dividend income far exceeds our salaries; as such, we are highly motivated to deliver long term sustainable DPS growth for all shareholders.

After these interim results have been disseminated, we will launch our Co-Ownership Plan III, in which we aim to further deepen our shareholder alignment by opening up Co-Ownership to our top 663 supervisors and above, out of our total Talent base of 2,917. With regard to alignment, we subscribe to Simon Sinek's book "Together is Better" as we drive towards our Co-Ownership Plan III aspirational goal of achieving cumulative HK$2.1 to HK$2.4 Adjusted Available Cash per Share for Distribution for the period FY18-20[3].

Sincerely yours,

William YEUNG
Co-Owner and
Chief Executive Officer

NiQ LAI
Co-Owner and
Chief Operating Officer

Footnotes:

1. Refer to HKBN's Annual Results Presentation for the year ended 31 August 2017
2. DPS refers to "dividend per share"
3. Refer to circular of the Company dated 16 November 2017 regarding the proposed adoption of the Co-Ownership Plan III

Key Financial and Operational Summary

Table 1: Financial highlights

	For the six months ended		
	28 February 2018	28 February 2017	**Change YoY**
Key financials ($'000)			
Revenue	**1,868,095**	1,534,726	+22%
– Residential	**1,101,411**	941,025	+17%
– Enterprise	**679,200**	569,222	+19%
– Product	**87,484**	24,479	>100%
Profit for the period	**240,935**	46,034	>100%
Adjusted Net Profit[1,2]	**295,489**	173,985	+70%
EBITDA[1,3]	**593,733**	480,961	+23%
EBITDA margin[1,4]	**31.8%**	31.3%	+0.5pp
Adjusted Free Cash Flow[1,5]	**236,906**	190,855	+24%
Reconciliation of Adjusted Net Profit[1,2]			
Profit for the period	**240,935**	46,034	>100%
Amortisation of intangible assets	**64,601**	64,601	–
Deferred tax arising from amortisation of intangible assets	**(10,047)**	(10,047)	–
Originating fee for banking facility expired	**–**	73,397	-100%
Adjusted Net Profit	**295,489**	173,985	+70%
Reconciliation of EBITDA & Adjusted Free Cash Flow[1,3,5]			
Profit for the period	**240,935**	46,034	>100%
Finance costs	**27,069**	116,922	-77%
Interest income	**(704)**	(89)	>100%
Income tax	**47,146**	43,809	+8%
Depreciation	**214,686**	209,684	+2%
Amortisation of intangible assets	**64,601**	64,601	–
EBITDA	**593,733**	480,961	+23%
Capital expenditure	**(188,898)**	(196,616)	-4%
Net interest paid	**(50,482)**	(56,718)	-11%
Other non-cash items	**720**	4,066	-82%
Income tax paid	**(113,507)**	(120,599)	-6%
Changes in working capital	**(4,660)**	79,761	>100%
Adjusted Free Cash Flow	**236,906**	190,855	+24%

Key Financial and Operational Summary

Table 2: Operational highlights

	For the six months ended			
	28 February 2018	31 August 2017	28 February 2017	**Change YoY**
Numbers of Talents	**2,917**	2,888	2,815	**+4%**
Residential business				
Fixed telecommunications network services business				
Residential homes passed ('000)	**2,266**	2,249	2,225	**+2%**
Subscriptions ('000)				
– Broadband	**872**	871	878	**-1%**
– Voice	**515**	518	524	**-2%**
Market share[6]				
– Broadband	**37.0%**	37.1%	37.6%	**-0.6pp**
– Voice	**22.3%**	22.2%	22.2%	**+0.1pp**
Broadband churn rate[7]	**0.9%**	0.9%	0.7%	**+0.2pp**
Residential ARPU[8]	**$173**	$168	$166	**+4%**
Mobile business				
Subscriptions ('000)	**222**	147	54	**>100%**
– Mobile (without broadband services)	**114**	78	27	**>100%**
– Mobile (with broadband services)	**108**	69	27	**>100%**
Mobile ARPU				
– Mobile (without broadband services)[11]	**$142**	$119	$141	**+1%**
– Mobile (with broadband services)[12]	**$311**	$268	$287	**+8%**
Residential customers ('000)	**1,003**	994	928	**+8%**
Enterprise business				
Commercial building coverage	**2,368**	2,349	2,316	**+2%**
Subscriptions ('000)				
– Broadband	**55**	53	50	**+10%**
– Voice	**137**	132	127	**+8%**
Market share[6]				
– Broadband	**19.0%**	18.8%	17.8%	**+1.2pp**
– Voice	**7.4%**	7.2%	6.8%	**+0.6pp**
Enterprise customers ('000)	**56**	54	51	**+10%**
Broadband churn rate[9]	**1.2%**	1.7%	1.3%	**-0.1pp**
Enterprise ARPU[10]	**$1,526**	$1,463	$1,467	**+4%**

Notes:

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

(2) Adjusted Net Profit means profit for the period plus amortisation of intangible assets (net of deferred tax credit and direct cost incurred in corresponding period) and non-recurring finance costs. Non-recurring finance costs, in the prior period, include originating fee for banking facility expired.

(3) EBITDA means profit for the period plus finance costs, income tax expense, 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 December 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 (excluding revenue from IDD and mobile services), by the number of average residential broadband subscriptions and further dividing by the number of months in the relevant period. Average residential broadband subscriptions are calculated by dividing the sum of such subscriptions at the beginning of the period and the end of the period by two. Our use and computation of residential ARPU may differ from the industry definition of ARPU due to our tracking of revenue generated from all services subscribed by residential broadband subscribers. We believe this gives us a better tool for observing the performance of our business as we track our residential ARPU on a bundled rather than standalone basis.

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

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

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

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

Business Review

During the six months ended 28 February 2018, the Group continued to execute on our J-curve growth and deliver a solid set of operational and financial results. This was driven by the successful execution of the quad-play price strategy that delivered comprehensive, integrated and high value-for-money services to our customers, which rewarded the Group with higher ARPU at a low monthly churn rate in return. Moreover, the enterprise business continued to prosper after the integration with NWT last year. As a result, our Group revenue, EBITDA and Adjusted Free Cash Flow increased year-on-year by 22%, 23% and 24%, respectively, to $1,868 million, $594 million and $237 million.

- Residential revenue grew by 17% year-on-year to $1,101 million as a result of the successful execution of a revenue market focus strategy that leveraged on our quad-play service offerings to increase ARPU while improving customer stickiness at the same time. Historical full base residential ARPU has increased by 4% year-on-year, from $166 to $173, while our monthly churn rate remained low. Our market share by broadband subscriptions remained at 37% as at 31 December 2017 (based on the latest available OFCA statistics).

  Through working closely with our over-the-top ("OTT") partner, the number of set-top boxes ordered by residential broadband customers has increased by 16% year-on-year to 730,000 as at 28 February 2018 (1H2017: 627,000), this represents more than half of our residential broadband customers who have ordered at least one OTT set-top box to fulfil their entertainment needs. This revolutionary entertainment experience provided to customers would not be possible without the collaboration of our trusted OTT partner, which leverages our quality network transmission as well as hi-speed and stable network service.

  The launch of mobile services through partnering with two major mobile network operators ("MVNO partners") in September 2016 has proven to be a crucial element of our quad-play price strategy, as well as one of the key drivers for residential revenue growth in 1H2018. Together with the strong support from our MVNO partners, our progressive marketing campaigns managed to capture a wider audience at a phenomenal pace. Number of activated subscribers increased to 222,000 as at 28 February 2018.

  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 increased by 19% year-on-year to $679 million. During the period, we achieved net additions of 5,000 year-on-year for a total of 56,000 enterprise customers while our enterprise ARPU improved by 4% year-on-year, from $1,467 to $1,526. The fully integrated business increased both our presence and capabilities in the enterprise market, which has enabled us to provide a broader range of products and services at competitive value to different customer segments. This has driven the continuous expansion in customer base as well as securing new projects of larger contract sums with some of the more renowned enterprises in the market. Our market share by broadband subscriptions increased to 19% as at 31 December 2017 (based on the latest available OFCA statistics).

- Product revenue increased to $87 million, mainly represented by the sale of smartphone products that complements our mobile business.

Network costs and costs of sales increased by 80% year-on-year to $545 million mainly due to continued expansion in the mobile, OTT and enterprise businesses.

Management Discussion & Analysis

Other operating expenses decreased slightly by 2% year-on-year from $1,033 million to $1,016 million mainly due to the decrease in Talent costs and advertising and marketing costs for the launch of mobile services in prior period.

Finance costs decreased by 77% year-on-year from $117 million to $27 million mainly due to the non-cash finance costs of $73 million in relation to the write-off of unamortised transactions cost for the bank loan refinanced in prior period.

Income tax increased slightly by 8% year-on-year from $44 million to $47 million. Our finance costs were not tax deductible. Income tax as a percentage of profit before taxation and finance costs (the "effective tax rate") was approximately 15% and 21%, respectively, for the six months ended 28 February 2018 and 28 February 2017. The effective tax rate for 28 February 2017 was higher than the statutory income tax rate as we had not recognised deferred tax assets of the acquired NWT business.

As the result of the aforementioned factors, profit attributable to equity shareholders increased to $241 million.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets, non-recurring finance costs and non-recurring items, increased by 70% year-on-year to $295 million.

EBITDA rose by 23% year-on-year to $594 million mainly driven by the revenue growth while managing a stable EBITDA margin at 31.8%.

Adjusted Free Cash Flow rose by 24% year-on-year to $237 million mainly due to an increase in EBITDA offsetting with the cash outflow to fund working capital changes.

Additions to property, plant and equipment amounted to $182 million for the six months ended 28 February 2018, as compared to $173 million for the corresponding period of last year.

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:

- Continue to execute our ATM (A for 'A'/x DSL broadband; T for home 'T'elephone line; and M for 'M'obile) growth strategy in order to further expand our market share;
- To expand our quad-play bundle plans to multi-play to drive APRU and subscription growth and disrupt the legacy broadband, fixed-voice, multimedia content and mobile standalone services;
- Further penetrate the enterprise market through our broad range of business-imperative services and more network capacity; 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 new Co-Ownership Plan III to HKBN Talents.

Liquidity and Capital Resources

As at 28 February 2018, the Group had total cash and cash equivalents of $358 million (31 August 2017: $385 million) and gross debt (principal amount of outstanding borrowing) of $3,900 million (31 August 2017: $3,900 million), which led to a net debt position of $3,542 million (31 August 2017: $3,515 million).

- The Group's gearing ratio, which was expressed as a ratio of the gross debt over total equity, was 3.4x as at 28 February 2018 (31 August 2017: 3.5x).

- The Group's net debt to EBITDA ratio, which was expressed as a ratio of the gross debt net of cash and cash equivalents over EBITDA, was 3.1x as at 28 February 2018 (31 August 2017: 3.4x).

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 28 February 2018 and 31 August 2017. As at 28 February 2018, the Group had an undrawn revolving credit facility of $200 million (31 August 2017: $200 million).

Under the liquidity and capital resources condition as at 28 February 2018, the Group can fund its capital expenditures and working capital requirements for the period with internal resources and the available banking facilities.

Hedging

The Group's policy is to partially hedge the 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.

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

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

Charge on Group Assets

As at 28 February 2018 and 31 August 2017, no assets of the Group were pledged to secure its loans and banking facilities.

Contingent Liabilities

As at 28 February 2018, the Group had total contingent liabilities of $4 million (31 August 2017: $4 million) in respect of bank guarantees provided to suppliers and utility vendors in lieu of payment of utility deposits.

Exchange Rates

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

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

Significant Investments, Acquisitions and Disposals

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 2018.

Talent Remuneration

As at 28 February 2018, the Group had 2,917 permanent full-time Talents (31 August 2017: 2,888 Talents). The Group provides remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and dependent on both the Group's and individual performances. The Group also provides comprehensive medical insurance coverage, competitive retirement benefits schemes, and Talent training programs.

To attract, retain and motivate skilled and experienced Talents, the Company adopted a Co-Ownership Plan II (the "Co-Ownership Plan II") on 21 February 2015. Co-Ownership is a powerful expression of the commitment and belief our Talents have in the Group. Unlike the more traditional approach of giving stock options to a very limited group of senior executives, the Company's Co-Ownership is open to all supervisors and above level Talents, spanning the Group's operations across Hong Kong and Guangzhou. Under "Co-Ownership Plan II", we now have over 310 Co-Owners, representing a majority of our supervisors and above level Talents which constitutes over 10.9% 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.

To provide additional means for the Company to incentivise its Talents and to recognise the continual support of the relevant employees to the Group and their effort in promoting the Group's long-term growth and development, the Company adopted a Co-Ownership Plan III (the "Co-Ownership Plan III") on 15 December 2017. For details of the Co-Ownership Plan III, please refer to the Company's announcement dated 2 November 2017 and the circular dated 16 November 2017. As at the date of this interim report, there are approximately 660 Talents that are eligible to participate in Co-Ownership Plan III, representing approximately 22.7% of the total number of existing employees of the Group and no invitations or grants under the Co-Ownership Plan III have been made.

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

Nurturing Our Growth

The unique culture behind our success

During our annual management experiential trip in Vietnam, HKBNers were challenged to think outside the box as well as discover what a socially aware purpose driven business can be.

Total Reward Concept

Unlike most private sector jobs, the rewards of working at HKBN encompass aspects that aren't solely monetary in nature. Whilst financial remuneration is important, HKBNers benefit from a range of returns that are part and parcel to our company whose mission is to "Make our Hong Kong a Better Place to Live", as well as uphold Talents as priority number one. Combined, both these elements ensure that HKBNers perform with pride and satisfaction whilst they enjoy the benefits of LIFE-work Priority as well as opportunities for life-long development. In addition, HKBN's Co-Ownership culture gives Talents a one-of-a-kind opportunity to succeed as part owners of the company they serve.

"While we always emphasise that good performance and high productivity will result in better bonus and a higher chance of promotion, we're actually offering something beyond career opportunities and monetary rewards... and we call this a **Total Reward Concept**."

CY Chan, Co-Owner and Head of Talent Engagement & Corporate Social Investment

In December 2017, we introduced our Total Reward Concept to all Talents. The following illustrates just how we execute on this holistic approach (for aspects relating to the community and environment focused efforts we undertake, please refer to the respective sections published in this report):

"Make Our Hong Kong A Better Place to Live"

By building the foundation of our business with a positive social impact, we believe profits will follow when the right thing is done. As a result, our Talents perform with a sense of purpose and satisfaction that's beyond just the job itself; knowing that we're all working for the betterment of Hong Kong society is a powerful motivator.

Ideas Sharing

With our core purpose in mind, HKBN's Talent Engagement team is always exploring ways to attract and align other like-minded companies to join efforts to make a positive impact for society. We are more than happy to share and exchange Talent engagement initiatives, practices and our corporate culture with other companies. In the 1st half of FY18, we undertook five corporate sharing sessions with organisations like Mattel, Macau Management Association, Hung Fook Tong, Schneider Electric and Chow Tai Fook Jewellery Group.

Co-Ownership

At HKBN, Co-Ownership plays an extremely vital role in aligning the interests of our Talents with those of our shareholders. Our Co-Ownership Plan II allows individual Talents (eligibility open to supervisors and above level Talents) to invest their own savings in the amount of between 2 to 12 months of salary to acquire HKBN stock at a ratio of 3 free shares for every 7 purchased shares, vested over three anniversaries.

By allowing all supervisors and above level Talents to grow together with the company as Co-Owners, we reward Talents with the satisfaction and identity to work beyond the role of only an employee.

Nurturing Our Growth

Talent-First Culture

Mindful that Talents play a crucial part of our success, throughout the interim period we continued to champion LIFE-work Priority and continuous learning opportunities for Talents at all levels.

In the first half of FY18, we concentrated on a number of impactful programmes and initiatives for the benefit of HKBNers:

Valentine's Day x CNY Eve Half Day Off

On Valentine's Day, we surprised our Talents with a special half-day off so that they could share precious time with loved ones, be it family, friends or a significant other. Even better, we introduced flexibility to allow Hong Kong-based Talents the option of taking this special half-day off either on Valentine's Day or to combine it with their entitled Lunar New Year Eve's festive half-day off (which incidentally fell on the following day). This flexibility echoes our Talent-first approach to facilitate our Talents enjoy a happy, healthy and heartfelt working experience at HKBN.

At Vietnam, our management team stepped out of comfort zones to help Ben Thanh Street Food Market vendors put disruptive innovation into practice.

Enhanced Work Injury Compensation Coverage

With effect from November 2017, Talents who suffer injury whilst performing work-related duties and responsibilities will be entitled to the full payment of his/her monthly earnings for the first three months versus the legal requirement for 4/5th pay. This upgraded benefit provides injured Talents with comprehensive protection and peace of mind on their road to recovery.

Fighting Influenza with Work From Home Flexibility

Taking swift action in response to the February flu outbreak, as well as the Hong Kong government's sudden suspension of kindergarten and primary school classes, we encouraged our Talents to consider working from home. This measure gave our Talents much greater work arrangement flexibility, allowing them to care for their children and families.

"InnoVIETour" in Vietnam, Ho Chi Minh City

Much more than a typical offsite reward trip, our decade-plus tradition of management experiential trips happen every year, regardless of good or bad business performance. These trips are designed to deliver extraordinary experiences beyond what our team members would likely attempt if they travelled on their own.

In October 2017, 104 members of HKBN management travelled to Vietnam for our annual management experiential offsite trip. Our aim was to demonstrate our innovative spirit in a place we are unfamiliar with, Vietnam. Named InnoVIETour, we spent the first two days working with local merchants to help them boost their business with innovative ideas. This challenged our participants to leverage their on-the-fly street smarts and off-the-cuff innovation to bring disruptive business change for 10 stalls at Ben Thanh Street Food Market. Happily, we delivered a 44% increase in sales overnight by breaking free from legacy practices.

As a company whose core purpose is to "Make our Hong Kong a Better Place to Live", we were honoured when John Wood, Founder of world-renowned non-profit organisation Room to Read, joined us in Vietnam to share insights about how purpose and profits can be complementary rather than contradictory in business. So encouraged were we that our management team donated in a personal capacity a total of about US$67,000, proceeds reserved to build a school for underprivileged girls.

Oozing confidence for tomorrow, HKBNers at our Vappy Party celebrated a year of success outfitted as trend setting futurists.

Vappy Party (Vappy = Very Happy)

To celebrate another year of success, we maintained our tradition of engaging our 2,900+ Talents in Hong Kong and Guangzhou/Shenzhen at our annual Vappy (Very + Happy) Party in December. The theme for this year's event was "Future Makers", whereby Talents were encouraged to playfully dress up as futurists. Through a series of attention-grabbing Talent performances led by a world-class magic and hover board dance crew, the party atmosphere was brought to a climax.

Apart from awards for best costumes, our annual Long Service Awards were also presented to recognise 167 Talents for their tremendous contributions over the past 5, 10, 15, 20, and 25 remarkable years.

Talent Wellness

We always emphasize LIFE-work Priority, where health and family always come before work. As such, wellness is always a core concern.

Hong Kong Marathon 2018

For the 11th consecutive year, we continued supporting our Talents to participate in the Hong Kong Marathon. To help our runners surpass their limits and achieve their goals at Hong Kong Marathon 2018, starting as early as October 2017, we offered a comprehensive training course led by famed marathon coach Wong Ka Man. Participating Talents, as well as external guests, attended the training sessions every Tuesday and Thursday to get themselves fit and fully-prepared for the 10 km, half marathon and full marathon events.

Recipients of our Long Service Awards are presented with a commemorative plaque and a gold coin.

Ready, set, go; (pictured left to right) HKBNers Alan Li, Oscar Or, Dennis Ma and Jacky Ng at Hong Kong Marathon 2018.

Nurturing Our Growth

Life-Long Development

On the development side, we believe every Talent is unique for the potential that is waiting to be unleashed. Quite proudly, HKBN is positioned as a place where Talents can co-grow, rather than just a place where they only come to work. As such, the development opportunities that we make available are always evolving to meet the diverse and ever-changing needs of HKBNers.

Talent Infinity – Executive Development Scheme

In November 2017, our highly successful Talent Infinity – Executive Development Scheme was upgraded. Upon reviewing the existing sponsorship limit that was in place for all MBA or EMBA programmes, we increased the possible sponsorship amount to 50% of the programme fee or 50% of a Talent's annual salary, whichever is lower. In addition, the scheme was further broadened to expand its accessibility as an executive development scheme. In hopes of encouraging more Talents to develop themselves whilst enjoying a reduced financial burden, we even facilitated to have the upfront programme fee paid for by the Company and shortened the employment commitment period from 2 to 1 year.

Exam Leave Upgrade

Besides educational sponsorships, we offer Exam Leave entitlements for Talents who undertake examinations and need time to attend their studies. In 2017, we enhanced this benefit by increasing the number of annual Exam Leave days from two to five. With this implemented, Talents can make use of Exam Leaves not only for exam preparations, but also for coursework or study tour purposes. For study tours, the number of Exam Leave entitlement can be flexibly increased for up to 50% of the tour's duration, eligibility subject to management's discretion.

Performance-Based Monetary Reward

At HKBN, we motivate and recognise outstanding individuals by rewarding high performers with more bonus and higher salary increments. Conversely, each year we also terminate the bottom 5% of our total salary base for non-performers.

Salary Review

In January 2018, an average of 4% and 8% pay raise was respectively offered to our Talents in Hong Kong and Guangzhou Talents, increments which beat the market average. At HKBN, we put huge emphasis on a "Pay for Performance" philosophy, not only to recognise individual contributions, but also to encourage Talents to strive for continuous improvement and stronger results for the Company.

Talent Promotions

Effective 1 January 2018, 257 Talents (174 Talents from Hong Kong, 83 Talents from Guangzhou and Shenzhen), including our first home-grown Chief Financial Officer Andrew Wong, received promotions. These HKBNers demonstrated outstanding performance and made noteworthy contributions for the Company. We are proud to see our Talents step up to more significant roles.

Red & Yellow Card Disciplinary Guideline

While we always strive to recognise and reward good performers, we also demand that our Talents maintain high integrity, respectable professional conduct and ethics at work. To ensure we uphold our pledge for Trustworthiness as well as espouse improved corporate governance, in January 2018 HKBN introduced a new Red Card & Yellow Card mechanism to replace the existing "Warning" mechanism. Through this, we strengthened the handling procedure to ensure that every disciplinary case is handled in a prompt, consistent and fair manner – avoiding any potential labour dispute risks as a result of mishandling.

Awards & Recognitions

Driving for excellence is paramount whenever the HKBN Talent Engagement team adopts measures and policies to improve our Talent-first endeavours. During the interim period, HKBN was recognised with the following:

Awards & Certifications	Conferred by
Hong Kong Sustainability Award 2016/17 – Certificate of Excellence in Large Organization Category	The Hong Kong Management Association
Best Flexible Working Award – Best HR Award 2017	CTgoodjobs

Our Commitment to Corporate Social Investment

Empowering people in need in a sustainable way

Students leveraged the technical knowledge learnt from the "Tech" a Youth workshop to re-produce products for people in need.

Driven by a core purpose to "Make our Hong Kong a Better Place to Live", at HKBN we're striving to serve an exemplary role and demonstrate how businesses can incorporate a desire to do purposeful good for society with the pursuit of profits. It is our evolving quest to leave behind a profit-only model, which outlines our approach for corporate social investment (CSI). From Talents to customers to investors, everyone wants to be part of something greater than themselves, and as such, we believe there are enormous opportunities from which the private sector can thrive and succeed in a socially-responsible way.

Through our pioneering transformation, we aspire to use our purpose-driven success as inspiration for other companies to see the merits, and in turn, follow to ensure many more businesses can evolve for the benefit of Hong Kong and its people. The following examples illustrate how HKBN is putting our core purpose into action via our service, expertise and resources for the good of the community at large:

Making Telecom Services Accessible in Hong Kong

HKBN has a very long-established history of pioneering disruptive change, challenging the inefficiencies associated with single carrier dominated service in the telecom industry. For instance, we made telecommunications more affordably accessible as a new entrant to disrupt the International Direct Dial market in the early 1990s, or by widely deploying high-speed fibre broadband across Hong Kong in the early 2000s, and more recently, bringing great OTT (Over-the-Top) content and superb-value mobile services to customers, as well as integrating 4-in-1 quad-play service on a single bill for fibre broadband, fixed voice, OTT content and mobile.

As a responsible business, we mandated a price ceiling for our basic 100Mbps residential broadband service, setting the limit at 1% of Hong Kong's median monthly household income in order to make world-class broadband Internet extremely accessible.

Our Commitment for Corporate Social Investment (CSI)

Investing for Community Sustainability

Over the years, HKBN has focused on long-term partnerships with social enterprises. Via these relationships, we work with them closely on a variety of levels, both within the scope of our business and beyond.

Since 2014, we partnered with iEnterprise to help employ a number of physically disabled individuals who work productively by handling our 1083 telephone number enquiry service. During this financial year, thanks to specialised training that we provided, the scope of this service was expanded to include customer service online chat services. The new skillset they acquired means they now possess more diverse competencies and better career prospects.

Quite proudly, one of our in-house canteens, Sharing Kitchen, is a social enterprise that provides entrepreneurship opportunities for home cooks. We have also appointed another social enterprise, TWGHs "WashEasy", to provide daily washing service for used canteen cutlery and containers – diminishing our reliance on throwaway items.

Sharing HKBN Resources

High rental costs combined with the limited choice of event venues are problems that many non-profit organisations must confront on a regular basis. Mindful of this, HKBN has proactively filled this gap by offering the use of our training room spaces free-of-charge to NGOs during non-office hours. Since introducing this venue-sharing concept in 2016, numerous NGOs have used our free space to organise different events that range from festive parties and volunteer team building to movie premieres for the underprivileged from our communities.

Technology-Focused CSI Initiatives & Talent Volunteering

Throughout the interim period, both HKBN and our independently operated and funded HKBN Talent CSI Fund have remained committed to co-creating technology-related CSI initiatives that engender a positive impact for the local community, youths in particular.

Net's Be Wise

More than ever, our children live in a world full of new digital media and technologies that are reshaping the way we behave and interact. Like how one needs to learn to drive safely before taking the wheel, we believe children should be properly informed before they can safely and responsibly navigate the digital world.

As a responsible telecommunications leader, HKBN is taking the lead to introduce Hong Kong's first digital citizenship movement. In partnership with Junior Achievement Hong Kong, this initiative launched in January 2018 assesses the Digital Intelligence (DQ) of primary school students and offers solutions to any potential risks. Incorporating the internationally recognised and research-backed DQ World online learning platform, as well as offline school workshops, this all-new "Net's Be Wise" initiative aims to empower 2,000 children aged 8-12 to acquire eight digital citizenship competencies over an 18-month period, enabling them to make judicious decisions in the cyber world. Ultimately, our goal is to apply this programme across more primary schools and develop a functional DQ index for Hong Kong.

A pilot workshop was organised in February to help HKBN Talents and their children trial the DQ World online learning platform.

"Tech" a Youth

HKBN believes that every student should have equal opportunities to learn regardless of their social or economic status. With this in mind, we launched the "Tech" a Youth programme in January 2018, an all-new workshop series designed to give underprivileged students a chance to explore the joys of technology with the guidance of HKBN volunteers. In the first series, participants gained hands-on experience in tech such as 3D pen drawing, creating stylish planet lamps to better grasp the concept of electricity. Aware that every skill is mastered through practice, we plan to have the participants apply the acquired skills to produce more products outside the workshops. These products will then be distributed to people in need from the community to spread our love further.

Our Commitment for Corporate Social Investment (CSI)

The launch of the E-Reading Corner in February 2018 brought a brand-new e-learning experience for students of Man Kiu Association Primary School.

Man Kiu Association Primary School e-Reading Corner

HKBN and HKBN Talent CSI Fund joined hands to offer a brand-new learning experience for students of the resource-starved Man Kiu Association Primary School in Ngau Tau Kok, Kowloon. Through our help and support, the school's library was fully revamped with an e-reading programme which now features brand-new tablets and e-books. As a result, students gained easy access to thousands of e-books both at school and at home, transforming reading into a much more interesting and accessible experience. Planned for March and April 2018, HKBN volunteers will also accompany the students on outings to capture photos for Augmented Reality (AR) book production and enrich the number of e-reading books available.

In addition, HKBN invited our business partner, Dah Chong Hong, to donate and install a number of air-conditioners inside the school's enclosed playground, greatly enhancing the learning environment during the hot summer months.

HKBN Volunteer Day 2017 – TECH into the Community

On 16 September 2017, more than 100 HKBN volunteers participated in our annual HKBN Volunteer Day. Emphasising the idea of exploration, we organised four volunteer activities, namely Canyon Challenge, Crate Climbing Challenge, Miner Experience Tour and Hiking at Lamma Island, for underprivileged students to discover and challenge themselves. Bringing technology into the fray, our team of eager volunteers helped the students record Virtual Reality (VR) videos about their adventures, as well as subsequently share our joy and excitement with people with disabilities via a VR workshop.

HKBN organised a VR experience workshop for people with disabilities to get a "personal feel" of going to different places via VR technology.

Our Commitment for Corporate Social Investment (CSI)

Under the guidance of our HKBN volunteers, students had the opportunity to make VR video recordings at our HKBN Volunteer Day 2017.

159
HKBN Talents volunteered

1,121
hours to serve our community

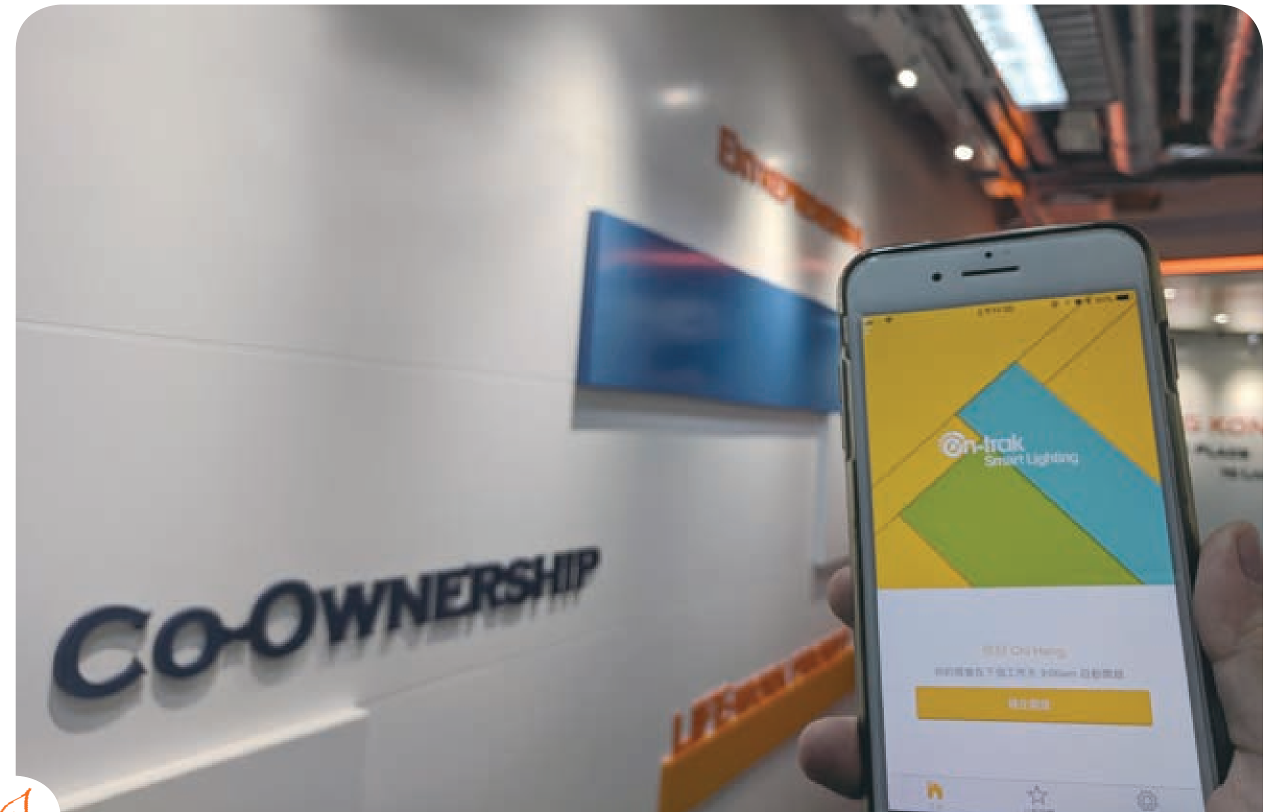
Throughout the interim period, 159 HKBN Talents volunteered a cumulative total of 1,121 hours to serve our community.

Awards & Certifications

Award and Certifications	Presented by
Certificate of Excellence in Large Organization Category – Hong Kong Sustainability Award 2016/17	The Hong Kong Management Association
2017 Tsuen Wan & Kwai Tsing District Caring Shop and Company Award Scheme – Outstanding Caring Shop and Company	Social Welfare Department – Tsuen Wan/Kwai Tsing District Social Welfare Office
Tithe Ethical Consumption Movement 2017 (TECM 2017) SE Supporter Plus Award	Fullness Social Enterprises Society
HKQAA CSR Plus Mark	Hong Kong Quality Assurance Agency
Caring Company Scheme – 10 Years Plus Caring Company Certification	The Hong Kong Council of Social Service

Our Respect for the Environment

Loving earth, living green



To enhance our energy saving efforts, we're putting the En Trak Smart Lighting system to use an IoT (Internet of Things) solution.

To carry out our core purpose to "Make our Hong Kong a Better Place to Live", HKBN firmly entrenches sustainability as part of our business operations. We aim to minimise our environmental footprint throughout our business to combat climate change and promote environmentally responsible best practices to our Talents, business partners and the community at large.

Improving Energy Efficiency

Over the years, we have embarked on a mission to reduce energy consumption by leveraging ingenuity and technology. To achieve this, a number of enhancements to our facilities have been undertaken in the following manner:

"Something from Nothing" Energy Saving Programme

In 2016, we appointed an energy consultant to spearhead "Something from nothing", our groundbreaking energy saving project. Unlike most projects of this kind, our programme was executed on a co-investment basis. CAPEX on energy saving initiatives were funded by the energy consultant and the respective investors whilst HKBN shared only a portion of the costs incurred.

In line with the project's phase 1 plan, we enhanced several energy initiatives at our headquarters in Kwai Chung. To date, after 18 months, Phase 1's measures have contributed to an 18% increase in energy savings than was forecasted for each year. Since July 2017, the project's scope was further expanded to include our data centre operations. Over the past six months, we saved 140,000 kWh electricity, achieving 80% more energy savings than expected for phase 2. In March 2018, HKBN will replace a chiller plant for higher energy efficiency at our office facilities. As a result, another 400,000kWh, equivalent to 5% of total electricity consumption in our office building for 2017, is expected to be saved. Since 2016, the combined efforts of "Something from Nothing" phase 1 and phase 2 have exceeded our CO_2 emissions reduction target by over 26%.

Our Respect for the Environment

IoT Energy consumption optimisation and management

In January 2018, HKBN adopted an IoT (Internet of Things) smart technology lighting control system at one of our office floors to enable intelligent office lighting control for optimised energy reduction and operational efficiency. Traditional office lighting is often controlled in a large lighting zone of which energy goes wasted when unoccupied areas are also illuminated. Rolled out as a pilot programme, this system allows our Talents to personalise illumination, whereby users can easily control their own lighting anytime and anywhere via the mobile application – reducing energy costs and CO2 emissions. In addition, its data engine processes and visualises data for easy performance assessment. After a one-month trial, the system reduced our lighting time by 10% and we are currently studying the feasibility to extend usage to other office floors.

Operational Enhancement for Waste Reduction

Supply chain management and waste reduction

To co-create a better environment, we have progressively embedded sustainability in the value chain when engaging our vendors. As an example, we requested our t-shirt supplier not to include any use of plastic in its packaging. After putting this practice into effect, we are happy to see that this vendor is now offering “plastic-less packaging” options for its other customers.

In addition, we have requested our vendors to stop selling plastic bottled and Tetra Pak drinks from vending machines in HKBN office. Altogether, a total of 7,200 pieces of plastic bottles and Tetra Paks have been eliminated annually. For business cards, we pledged to stop accepting the plastic cases which house printed cards. With this move, we estimate that at least 1,000 plastic cases have been saved from entering our landfills annually. Additionally, we’re taking a closer look upon the logistics flow of our different vendors. For example, by forgoing packaging material for set-top boxes, one of our vendors has created a win-win situation, reducing weight for lower transportation costs whilst minimising impact on the environment.

To reduce waste from the supply chain, we asked our vendor not to include plastic cases with our printed business cards.

Inside HKBN offices, we’ve stopped using plastic bottled and boxed drinks for events.

Talent Education

To ensure that our environmental policies can be effectively adopted, it is critical that our Talents better understand the role of sustainability. Apart from organising various eco workshops to arouse awareness, we published an Environmental Handbook in November 2017 to highlight key environmental practices for HKBN Talents to follow. Various suggestions are given in the handbook to help integrate green solutions into the daily workflow of HKBN’s operations. These are designed to illustrate the many ways in which, with little ease and effort, substantial energy and other resources can be saved in the workplace.

Q A with 香港寬頻 HONG KONG BROADBAND NETWORK

The following conversation is extracted from a podcast interview of HKBN Co-Owner and COO NiQ Lai conducted in January 2018 by worldwide executive search firm, Heidrick & Struggles. The full interview will be published on the Heidrick & Struggles website at a later date.

Group photo of our Co-Owners during HKBN's IPO listing at the Hong Kong Stock Exchange.

Q

HKBN was founded in 1999. In less than 20 years, it has emerged as one of the top players in Hong Kong's telecom industry, with a revenue of HKD3.2 billion in FY17. What is the secret recipe behind HKBN's success in an industry that's notorious for its cut throat competition?

A

We are here today due to A) Grit – 7 years of negative free cash flow, B) Focus – this is our only business, unlike our competitors who were a small part of major conglomerates and C) Luck – we capitalised on market opportunities to raise capital when needed.

The industry appears to be notorious for cut throat competition but if you can take advantage of structural changes, you can ride these disruptive waves to great profitability. For example, we have seen fibre replace the legacy telephone line for broadband, so you can either surf this wave or get drowned by it; and we were ready to surf it.

Our big differentiator is we were founded in 1992 by non-telecom entrepreneurs who brought in a fresh way of doing business as they did not know the old ways. In contrast, most of the other new entrants in the early days, were founded by ex-monopoly executives with an establishment 'me-too' approach. For example, as a monopoly the incumbent did not even have a marketing department rather they had a billing department, whereas when we came onto the scene, we introduced some very dynamic marketing campaigns.

Effectively HKBN transformed the old market and then accelerated away from many of the old competitors as only an industry outsider can do.

Q HKBN's company motto is *If we deliver our core purpose, profits will follow.* And you've once said "I want to leave HKBN stronger than when I joined it. Leave this world a better place than when I entered it." Why did the company decide to create a purposed-led business?

A It is simply the right thing to do. If we can make our Hong Kong a better place to live, we will profit handsomely and so far, this has been the case. For example, in the 1990s, we collapsed the cost of International Direct Dial (IDD), making it affordable for Hong Kongers to talk with the world, and we made a lot of money doing this. In the 2000s, we made it very affordable for the public housing segment to enjoy fibre broadband. Both these examples have been enormously profitable for us and this continues to be our disruptive mindset today with our current disruptions in integrated quad-play offerings.

At HKBN, our core purpose is to "Make our Hong Kong a better place to live", which is something we have been doing for the past 25 years and will continue to do for the next 25 years… if this is meaningful to you, then we are a great place to work in, otherwise we encourage people to go somewhere else.

Q HKBN is known to be very innovative in terms of recruiting and retaining talent. Do you think the company has transformed the industry from a talent management point of view?

A Let's start by what we call our colleagues, i.e. we don't have any "staff" at HKBN, rather we have 2,800 Talents with a capital "T". To us, Talent refers to people with special positive attributes.

We always say to our Talents, existing and potential new joiners, "don't expect to make lots of money from HKBN rather expect to make lots of money with HKBN". Co-Ownership requires you to put "skin-in-the-game" by investing your family savings into HKBN equity for direct alignment of interest. We are proud to say that HKBN has minted a tremendous number of HK$ millionaires. During our MBO in 2012, ~90 of us put in around HK$180 mn investment and returned 6x upon IPO in 2015.

Since IPO, we continued to deepen our Co-Ownership whereby we now have over 300 Talents as Co-Owners, which represents the majority of our supervisor-and-above-level Talents. Each of our Co-Owners has this title printed on his/her name cards, and we are all extremely proud of this.

Inside HKBN, we remind ourselves daily that there are only Talents, no staff.

Q & A with HKBN

The majority of our supervisors and above level Talents have invested money to be HKBN Co-Owners.

Q HKBN is proud of its "Talent-first" culture. Could you tell us how you nurture, sustain and measure it against your business results?

A It is our Talents who drive this company; we are totally dependent on our Talents to offer exceptional service to our customers, which in turn generates exceptional returns for our shareholders. To us, being Talent-first is a no brainer, as we believe if you get Talents right, everything else falls into place.

We don't believe in employee surveys, i.e. the ones with different levels of smiley faces, rather we believe the true test of engagement is when we ask our managers who would like to put their family savings in to become a Co-Owner, the far majority of our senior managers vote positively with their dollars.

Q How do you measure your culture against your business performance?

A Our bottom line metric is long term stock appreciation – as Co-Owners, this is how we support our families. Other metrics such as customer satisfaction, Talent engagement, NPS etc. are only process indicators.

Our core purpose is to "Make our Hong Kong a better place to live". We cannot do this alone, rather we need to inspire other companies to do the right things, and can we can only inspire if we are profitable. We are unprofitable, then we are just a quirky company, but if we are profitable then we are an innovative company that others are likely to follow.

Q & A with HKBN

As a big proponent of aligning purpose with business, we jumped at the opportunity to organise a charity-cum-book launch for John Wood's latest work, Purpose Incorporated: Turning Cause Into Your Competitive Advantage.

Q

How does your management team strike a balance between maintaining a desirable culture and getting business results?

A

If you get the culture right, then results will follow over time, e.g. we believe our LIFE-work priority approach, whereby we work 37 days less per year than a typical Hong Kong company, forces us to work smarter and also helps us to attract the very best Talents.

If you play with more peanuts (money) you attract bigger monkeys, but if we attract people with purpose and meaning, those are the kinds of Talents we want.

Q

What advice would you give to other companies and business leaders who want to lead with a purpose?

A

Purpose can be good for profits. Purpose is not about writing bigger donation cheques or having a bigger CSR department, rather purpose must be embedded into the core of the business. Purpose needs to be what we do from 9am-6pm, for in HKBN's case, its 9am-5pm, as we have shortened work days.

Proving that purpose isn't something we leave to our CSR team, in 2015 the HKBN management team cycled across Taiwan to raise over HK$1.1 million dollars for underpriviliged families.

Q

What's the next big thing for HKBN?

A

Execute, execute and execute on our core purpose to "Make our Hong Kong a better place to live".

Symbolic of how we're not only about developing business leaders, each year our summer interns must work on projects built around social responsibility.

#Start FromOne Heart:

HKBN Management Visits Guangzhou Office

A defining hallmark of our management approach stems greatly from how open and transparent we are. Mirroring our core values to always be responsive and entrepreneurial, key strategic decisions are often undertaken with tangible participation and feedback from our Talents and Co-Owners – at HKBN, we believe the collective insights of our HKBNers usually eclipse any idea that may come from a single individual.

Our Collective Insights

In March of this year, more than 100 members of HKBN management ascended on our Guangzhou offices. Splitting into smaller groups, they were tasked to identify solutions that can further improve our frontline customer service and telesales operations. Over the course of three highly focused days, management participated in gainful sessions that monitored the way our Talents interact with customers, carefully scrutinising any problems and challenges which emerged. True to form as Talents bearing a Co-Owner's perspective, our participants each submitted handy recommendations ranging from enhancements for frontline training to others that would modernise the customer service interface in line with our evolving quad-play business.

#StartFromOneHeart:
HKBN Management Visits Guangzhou Office

Strategic Focus

Like any effectively good team, the ability to distill new ideas for action is key. On our third and final day in Guangzhou, we disseminated all the recommended plans and voted to identify three areas for focused action – with the stipulation to bring swift business results. Out of this unique exercise, our management team chose the following areas to enhance what we do, as well as named three task force leaders to oversee each project's execution:

- **Expand Network Coverage (led by Mikron Ng, Co-Owner and Director – Customer Acquisition)**
  Broader network coverage means our business will be better positioned to attract more business and residential customers. Our teams will concentrate on expediting ways to expand our network in the most judicious way possible.

In Guangzhou, the first order of business was to monitor calls made by our customer service and telesales Talents.

On stage, our Co-Owner and CEO William reminded everyone of their role in shaping HKBN's future success.

In pursuit of progress, our management groups intermingled for ideas and feedback sharing.

Using our custom–designed app, participants voted for their three most desired areas of improvement.

- **Big Data Analytics (led by Ben Hui, Co-Owner and Director – Customer Retention & Retail)**
  As understanding customer behavior becomes more important than ever, we will focus in unprecedented ways to use analytics to grow and improve how we engage new and existing customers.

- **Revamp Customer Service Interface System (led by Alex Chu, Co-Owner and Senior Manager – Commercial Sales)**
  Noting that our rapid transition to quad-play has presented challenges to our customer service and telesales teams (frontline Talents must navigate a number of different system interfaces when speaking to customers), the current system will be revamped to simplify usability and ultimately reduce the time spent on every call.

Review Report

Review report to the board of directors of HKBN Ltd.

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 29 to 47 which comprises the consolidated statement of financial position of HKBN Ltd. (the "Company") as of 28 February 2018 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 2018 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

19 April 2018

Consolidated Income Statement

For the six months ended 28 February 2018 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended	
	Note	**28 February 2018 $'000**	28 February 2017 $'000
Revenue	4	**1,868,095**	1,534,726
Other net income	5(a)	**8,249**	6,907
Network costs and costs of sales		**(545,452)**	(303,857)
Other operating expenses	5(d)	**(1,015,508)**	(1,032,577)
Finance costs	5(c)	**(27,069)**	(116,922)
Share of profits of associates		**–**	2,027
Share of losses of joint ventures		**(234)**	(461)
Profit before taxation	5	**288,081**	89,843
Income tax	6	**(47,146)**	(43,809)
Profit for the period attributable to equity shareholders of the Company		**240,935**	46,034
Earnings per share	7		
Basic		**24.1 cents**	4.6 cents
Diluted		**24.0 cents**	4.6 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 2018 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended	
	28 February 2018 $'000	28 February 2017 $'000
Profit for the period	**240,935**	46,034
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	**5,736**	(2,934)
Total comprehensive income for the period attributable to equity shareholders of the Company	**246,671**	43,100

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

Consolidated Statement of Financial Position

At 28 February 2018 – unaudited

(Expressed in Hong Kong dollars)

	Note	At 28 February 2018 $'000	At 31 August 2017 $'000
Non-current assets			
Goodwill		**1,771,969**	1,771,969
Intangible assets		**1,522,603**	1,612,707
Property, plant and equipment	8	**2,256,400**	2,289,790
Interest in joint ventures		**8,554**	8,788
Other non-current assets		**24,558**	24,600
		5,584,084	5,707,854
Current assets			
Inventories		**20,676**	11,824
Trade receivables	9	**231,235**	205,167
Other receivables, deposits and prepayments	9	**243,889**	266,321
Amount due from a joint venture		**8,123**	9,244
Cash and cash equivalents	10	**358,499**	385,052
		862,422	877,608
Current liabilities			
Trade payables	11	**100,642**	97,658
Other payables and accrued charges – current portion	11	**322,968**	363,181
Deposits received		**60,059**	57,221
Deferred services revenue – current portion		**90,761**	81,949
Obligations under granting of rights – current portion		**9,024**	9,024
Amounts due to joint ventures		**10,000**	10,000
Contingent consideration – current portion		**19,707**	27,489
Tax payable		**74,580**	115,875
		687,741	762,397
Net current assets		**174,681**	115,211
Total assets less current liabilities		**5,758,765**	5,823,065

Consolidated Statement of Financial Position

At 28 February 2018 – unaudited

(Expressed in Hong Kong dollars)

	Note	At 28 February 2018 $'000	At 31 August 2017 $'000
Non-current liabilities			
Other payables and accrued charges – long-term portion	11	**232,570**	293,748
Deferred services revenue – long-term portion		**80,319**	92,752
Obligations under granting of rights – long-term portion		**29,329**	33,843
Deferred tax liabilities		**398,552**	423,618
Contingent consideration – long-term portion		**2,701**	2,869
Provision for reinstatement costs		**18,958**	16,015
Bank loan	12	**3,847,592**	3,831,332
		4,610,021	4,694,177
NET ASSETS		**1,148,744**	1,128,888
CAPITAL AND RESERVES	13		
Share capital		**101**	101
Reserves		**1,148,643**	1,128,787
TOTAL EQUITY		**1,148,744**	1,128,888

Approved and authorised for issue by the board of directors on 19 April 2018.

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 2018 – unaudited

(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company						
	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Other reserve $'000	Retained profits $'000	Exchange reserve $'000	Total $'000
Balance at 1 September 2016		101	528,260	13,136	596,420	232,272	(6,831)	1,363,358
Changes in equity for the 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 and at 1 March 2017		101	327,127	20,388	596,420	278,306	(9,765)	1,212,577
Changes in equity for the six months ended 31 August 2017:								
Profit for the period		–	–	–	–	125,076	–	125,076
Other comprehensive income		–	–	–	–	–	5,678	5,678
Total comprehensive income		–	–	–	–	125,076	5,678	130,754
Dividend declared in respect of the current year	13(a)(i)	–	(221,247)	–	–	–	–	(221,247)
Equity-settled share-based transactions	13(c)	–	–	6,804	–	–	–	6,804
Balance at 31 August 2017 and at 1 September 2017		101	105,880	27,192	596,420	403,382	(4,087)	1,128,888
Changes in equity for the six months ended 28 February 2018:								
Profit for the period		**–**	**–**	**–**	**–**	**240,935**	**–**	**240,935**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**5,736**	**5,736**
Total comprehensive income		**–**	**–**	**–**	**–**	**240,935**	**5,736**	**246,671**
Dividend approved in respect of the previous year	13(a)(ii)	**–**	**(105,880)**	**–**	**–**	**(125,423)**	**–**	**(231,303)**
Equity-settled share-based transactions	13(c)	**–**	**–**	**4,488**	**–**	**–**	**–**	**4,488**
Balance at 28 February 2018		**101**	**–**	**31,680**	**596,420**	**518,894**	**1,649**	**1,148,744**

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 2018 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended	
	28 February 2018 $'000	28 February 2017 $'000
Operating activities		
Cash generated from operations	**563,923**	480,332
Hong Kong Profits Tax paid	**(111,177)**	(118,307)
Tax paid outside Hong Kong	**(2,330)**	(2,292)
Net cash generated from operating activities	**450,416**	359,733
Investing activities		
Payment for purchase of property, plant and equipment	**(188,898)**	(196,616)
Proceeds from sale of property, plant and equipment	**926**	1,602
Payment for contingent consideration	**(8,183)**	(7,830)
Other cash flows arising from investing activities	**703**	89
Net cash used in investing activities	**(195,452)**	(202,755)
Financing activities		
Proceeds from bank loan	**–**	3,820,690
Repayment of bank loans	**–**	(3,800,000)
Interest paid on bank loans	**(44,889)**	(46,038)
Interest paid on interest-rate swaps	**(6,297)**	(10,769)
Increase in amount due to an associate	**–**	345
Dividend paid	**(231,303)**	(201,133)
Net cash used in financing activities	**(282,489)**	(236,905)
Net decrease in cash and cash equivalents	**(27,525)**	(79,927)
Cash and cash equivalents at the beginning of the period	**385,052**	354,955
Effect of foreign exchange rate changes	**972**	(1,591)
Cash and cash equivalents at the end of the period	**358,499**	273,437

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 19 April 2018.

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 2017, except for the accounting policy changes that are expected to be reflected in the 2018 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 2017. 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.

2 Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the group. 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 in this interim financial report.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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.

4 Revenue

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

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

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

	Six months ended	
	28 February 2018 $'000	28 February 2017 $'000
Residential revenue	**1,101,411**	941,025
Enterprise revenue	**679,200**	569,222
Product revenue	**87,484**	24,479
	1,868,095	1,534,726

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

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Profit before taxation

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

	Six months ended	
	28 February 2018 $'000	28 February 2017 $'000
(a) Other net income		
Interest income	**(704)**	(89)
Net foreign exchange loss/(gain)	**4,959**	(1,813)
Amortisation of obligations under granting of rights	**(4,512)**	(4,512)
Change in fair value of contingent consideration	**233**	999
Other income	**(8,225)**	(1,492)
	(8,249)	(6,907)
(b) Talent costs		
Salaries, wages and other benefits	**432,490**	432,417
Contributions to defined contribution retirement plan	**29,066**	28,361
Equity-settled share-based payment expenses	**4,488**	7,252
Cash-settled share-based payment expenses	**512**	328
	466,556	468,358
Less: Talent costs capitalised as property, plant and equipment	**(15,803)**	(17,043)
Talent costs included in advertising and marketing expenses	**(215,857)**	(205,251)
	234,896	246,064

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

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Profit before taxation (continued)

	Six months ended 28 February 2018 $'000	Six months ended 28 February 2017 $'000
(c) Finance costs		
Interest on bank loans	**61,150**	53,862
Interest on interest-rate swaps, net	**6,297**	10,769
Fair value gain on interest-rate swaps	**(40,378)**	(21,106)
Originating fee for banking facility expired	**–**	73,397
	27,069	116,922
(d) Other items		
Advertising and marketing expenses	**289,565**	294,938
Depreciation	**214,686**	209,684
Loss on disposal of property, plant and equipment, net	**27**	1,367
Impairment losses on trade receivables	**24,393**	16,921
Amortisation of intangible assets	**90,104**	78,601
Operating lease charges in respect of land and buildings: minimum lease payments	**28,786**	23,595
Operating lease charges in respect of telecommunications facilities and computer equipment: minimum lease payments	**124,950**	108,899
Research and development costs	**10,014**	10,826
Cost of inventories	**82,228**	20,567

6 Income tax

	Six months ended 28 February 2018 $'000	Six months ended 28 February 2017 $'000
Current tax – Hong Kong Profits Tax	**69,947**	67,342
Current tax – Outside Hong Kong	**2,265**	2,042
Deferred tax	**(25,066)**	(25,575)
	47,146	43,809

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 28 February 2017: 16.5%) of the estimated assessable profits for the six months ended 28 February 2018.

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

(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 $240,935,000 (six months ended 28 February 2017: $46,034,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,001,800,000 ordinary shares (six months ended 28 February 2017: 1,000,689,000 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 $240,935,000 (six months ended 28 February 2017: $46,034,000) 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 2018 '000	28 February 2017 '000
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,001,800**	1,000,689
Effect of the Co-Ownership Plan II	**2,095**	2,367
Weighted average number of ordinary shares (diluted)	**1,003,895**	1,003,056

8 Property, plant and equipment

Acquisitions and disposals

During the six months ended 28 February 2018, the Group's additions of property, plant and equipment with a cost of $181,882,000 (six months ended 28 February 2017: $173,185,000), including the telecommunication, computer and office equipment of $172,415,000 (six months ended 28 February 2017: $167,017,000).

During the six months ended 28 February 2018, the Group disposed of certain property, plant and equipment with a net book value of $953,000 (six months ended 28 February 2017: $2,969,000), resulting in a loss on disposal of $27,000 (six months ended 28 February 2017: loss on disposal of $1,367,000).

(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 2018 $'000	At 31 August 2017 $'000
Within 30 days	**118,304**	100,751
31 to 60 days	**52,117**	40,343
61 to 90 days	**23,992**	21,984
Over 90 days	**36,822**	42,089
	231,235	205,167
Trade receivables	**261,912**	225,647
Less: Allowance for doubtful debts	**(30,677)**	(20,480)
	231,235	205,167
Other receivables, deposits and prepayments	**243,889**	266,321
	475,124	471,488

The majority of the Group's trade receivable is due within 30 days from the date of billing. Subscribers with receivable that are more than 3 months overdue are requested to settle all outstanding balances before further credit is granted.

Other receivables, deposits and prepayments consist of rental deposit, interest receivable, unbilled revenue, prepayments and other receivables. All of the other receivables, except for rental deposits and other receivables amounted to $20,059,000 (31 August 2017: $19,400,000), 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 2018 $'000	At 31 August 2017 $'000
Cash at bank and in hand	**358,499**	385,052

(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 2018 $'000	At 31 August 2017 $'000
Within 30 days	**53,228**	50,179
31 to 60 days	**15,894**	16,574
61 to 90 days	**5,351**	6,433
Over 90 days	**26,169**	24,472
	100,642	97,658
Trade payables	**100,642**	97,658
Other payables and accrued charges		
– Current portion	**322,968**	363,181
– Long-term portion	**232,570**	293,748
	656,180	754,587

The long term portion includes the contractual obligation of the licences fee payment.

12 Bank loan

At 28 February 2018 and 31 August 2017, the Group has term and revolving credit facilities agreement of $4,100,000,000 in aggregate with various international banks and drawn down a bank loan with a principal amount of $3,900,000,000 at Hong Kong Inter-bank Offered Rate plus a margin of 1.35% per annum payable quarterly.

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

To calculate the effective interest in each reporting period, the effective interest rate is applied to the amortised cost of the bank loan at the end of the previous reporting period.

The effective interest rate of the bank loan as of 28 February 2018 is 2.85% (2017: 2.58%) and the amortised cost of the bank loan is $3,847,592,000 (2017: $3,831,332,000).

The 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 final 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 2018 $'000	Six months ended 28 February 2017 $'000
Interim dividend declared after the interim period of 26 cents per ordinary share (six months ended 28 February 2017: 22 cents per ordinary share)	**261,473**	221,247

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 2018 $'000	Six months ended 28 February 2017 $'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 23 cents per ordinary share (six months ended 28 February 2017: 20 cents per ordinary share)	**231,303**	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.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Capital, reserves and dividends (continued)

(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.

On 20 November 2015, 159,000 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, 2,081,000 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 24 January 2017, 258,000 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 $8.35.

On 20 July 2017, 253,000 RSUs were granted to Talents of the Group in Hong Kong by the Company under the Plan. The directors estimated the weighted average fair value of each RSU of grant date to be $7.20.

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.

A total of 102,726 shares (2017: 5,696 shares) were vested during the six months ended 28 February 2018.

(Expressed in Hong Kong dollars unless otherwise indicated)

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

	Fair value at 28 February	Fair value measurement as at 28 February 2018 categorised into		
	2018 $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial assets:				
Derivative financial instrument:				
– Interest-rate swaps	1,001	–	1,001	–
Financial liabilities:				
Derivative financial instrument:				
– Interest-rate swaps	7,129	–	7,129	–
Contingent consideration	22,408	–	–	22,408

(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 31 August 2017 $'000	Fair value measurement as at 31 August 2017 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instrument:				
– Interest-rate swaps	46,507	–	46,507	–
Contingent consideration	30,358	–	–	30,358

During the six months ended 28 February 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: $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 2018 is determined considering the expected payment, discounted to present value using a risk-adjusted discount rate of 2.8% (2017: 2.7%).

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

	At 28 February 2018 $'000	At 31 August 2017 $'000
Contingent consideration		
At the beginning of the period/year	**30,358**	45,976
Settlement of contingent consideration for the period/year	**(8,183)**	(17,053)
Change in fair value during the period/year	**233**	1,435
At the end of the period/year	**22,408**	30,358
Contingent consideration – current portion	**19,707**	27,489
Contingent consideration – long-term portion	**2,701**	2,869
Total contingent consideration	**22,408**	30,358

(Expressed in Hong Kong dollars unless otherwise indicated)

14 Fair value measurement of financial instruments (continued)

(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 2018 and 31 August 2017.

15 Capital commitments outstanding not provided for in the interim financial report

	At 28 February 2018 $'000	At 31 August 2017 $'000
Purchase of telecommunications, computer and office equipment		
Contracted but not provided for	149,969	163,402

16 Contingent liabilities

	At 28 February 2018 $'000	At 31 August 2017 $'000
Bank guarantee in lieu of payment of utility deposits	3,622	3,622

At 28 February 2018 and 31 August 2017, 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 2017: $Nil).

Legal contingencies

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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 2018 $'000	Six months ended 28 February 2017 $'000
Short-term employee benefits	**17,795**	19,116
Post-employment benefits	**1,266**	1,292
Equity compensation benefits	**451**	1,787
	19,512	22,195

18 Non-adjusting events after the reporting period

Subsequent to the end of the reporting period, the Group has committed to extend the term and revolving credit facilities agreement from the original expiry in November 2021 to May 2023 and the interest rate margin shall be improved from the existing 1.35% to 1.05% at the current leverage level (the "refinancing"). Up to the approval date of this interim financial report, the Company is still in the process of completing the refinancing arrangements with various international banks. The non-cash finance cost in relation to the write-off of unamortised transaction cost for the existing banking facility shall be reflected in the consolidated income statement for the year ending 31 August 2018 upon completion of the refinancing. No adjustments have been made to this interim financial report as a result of the above event.

Other Information

Directors' and Chief Executives' Interests in Securities

As at 28 February 2018, the Directors and chief executives of the Company had the following interests and short positions in the shares, underlying shares (in respect of positions held pursuant to equity derivatives), and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange 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 on the Stock Exchange (the "Listing Rules"):

Long Position

Ordinary shares of HK$0.0001 each in the Company

Name of Director		Number of shares held	Number of underlying shares held under equity derivatives *(Note 1)*	Total number of shares held	Percentage of the issued share capital of the Company
Mr. Bradley Jay HORWITZ	*(Note 2)*	250,000	–	250,000	0.02%
Mr. William Chu Kwong YEUNG	*(Note 3)*	26,821,206	265,221	27,086,427	2.69%
Mr. Ni Quiaque LAI	*(Note 4)*	32,817,375	179,747	32,997,122	3.28%

Notes:

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

2. *Mr. Bradley Jay HORWITZ is personally interested in 250,000 ordinary shares.*

3. *Among 27,086,427 ordinary shares which Mr. William Chu Kwong YEUNG are personally interested in, 265,221 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, 179,747 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 2018.

Share Incentive Scheme

To attract, retain and motivate skilled and experienced Talents, the Company adopted a Co-Ownership Plan II on 21 February 2015. Under the Co-Ownership Plan II, the board of directors of the Company (the "Board") may, in its absolute discretion, invite participants to purchase shares of the Company and agree to grant them a contingent right to receive shares (i.e. RSU) at the relevant matching ratio in respect of any shares purchased, subject to certain terms, conditions and undertakings. The total number of shares that may underlie the RSUs granted pursuant to the Co-Ownership Plan II shall be (i) 10% of the shares in issue on 12 March 2015 (the "Listing Date"), the date on which the Company was listed on the Stock Exchange or (ii) 10% or less of the shares in issue as at the date following the date of approval of the renewed limit (as the case may be). The Co-Ownership Plan II shall be valid and effective for the period commencing on the Listing Date and expiring on the tenth anniversary thereof or such earlier date as it is terminated in accordance with the terms of the Co-Ownership Plan II, after which period no further RSUs shall be offered or granted.

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

Details of movements of the Co-Ownership Plan II during the six months ended 28 February 2018 are as follows:

		Number of RSUs									
Participants	Date of grant	Granted	As at 1 September 2017	Granted during the period	Forfeited during the period	Vested during the period	As at 28 February 2018	To be vested on 24 January/20 June/29 June/20 July/18 August/20 November (As at 28 February 2018)			
								2017	2018	2019	2020
Mr. William Chu Kwong YEUNG*	29 June 2015	238,608	119,304	–	–	–	119,304	–	119,304	–	–
Mr. Ni Quiaque LAI*	29 June 2015	158,132	79,066	–	–	–	79,066	–	79,066	–	–
Other Participants	29 June 2015	2,326,246	967,772	–	43,861	–	923,911	–	923,911	–	–
Other Participants	18 August 2015	273,612	129,936	–	–	–	129,936	–	129,936	–	–
Other Participants	20 November 2015	158,567	15,736	–	3,236	6,022	6,478	–	6,478	–	–
Mr. William Chu Kwong YEUNG*	20 June 2016	194,556	145,917	–	–	–	145,917	–	48,639	97,278	–
Mr. Ni Quiaque LAI*	20 June 2016	134,241	100,681	–	–	–	100,681	–	33,560	67,121	–
Other Participants	20 June 2016	1,752,685	1,148,412	–	37,214	–	1,111,198	–	370,339	740,859	–
Other Participants	24 January 2017	400,472	386,871	–	–	96,704	290,167	–	–	96,704	193,463
Other Participants	20 July 2017	252,635	252,635	–	–	–	252,635	–	63,154	63,154	126,327
Total		**5,889,754**	**3,346,330**	**–**	**84,311**	**102,726**	**3,159,293**	**–**	**1,774,387**	**1,065,116**	**319,790**

* *Director of the Company*

Arrangements to Purchase Shares or Debentures

Save as disclosed in the "Share Incentive Scheme" above, at no time during the six months ended 28 February 2018 was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Interests of Substantial Shareholders

As at 28 February 2018, to the best knowledge of the Directors and chief executives of the Company, the following persons (other than any Directors or chief executives of the Company) were substantial shareholders, had notified the Company of their relevant interests in shares and underlying shares (in respect of positions held pursuant to equity derivatives) representing 5% or more of the issued share capital of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO:

Long Position

Ordinary shares of HK$0.0001 each in the Company

Name of shareholder	*Note*	Number of ordinary share beneficially held	Percentage of the issued voting share of the Company
Canada Pension Plan Investment Board	*(a)*	181,048,500	18.00%
GIC Private Limited	*(b)*	90,497,297	8.99%
The Capital Group Companies, Inc.	*(c)*	81,336,000	8.08%
Matthews International Capital Management, LLC	*(d)*	60,350,000	6.00%

Notes:

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

(b) 90,497,297 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, 332,500 ordinary shares, 2,611,500 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 held by Matthews International Capital Management, LLC 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 2018.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 28 February 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Other Information

Interim Dividend

The Board has resolved to declare an interim dividend of 26 HK cents (28 February 2017: 22 HK cents) per share for the six months ended 28 February 2018 to the shareholders whose names appear on the register of members of the Company on Tuesday, 8 May 2018. The interim dividend will be payable in cash on Wednesday, 16 May 2018.

The dividend policy of the Company is to pay dividends in an amount of not less than 90% of our Adjusted Free Cash Flow with an intention to pay 100% of our Adjusted Free Cash Flow in respect of the relevant year/period, after adjusting for potential debt repayment, if required. The Company has recommended to pay above this range at 110% of our Adjusted Free Cash Flow for this interim period due to timing difference of tax payment in 1H2018.

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 2018, 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 2018 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 Director of the Company since the publication of the Company's 2017 annual report are set out below:

Ms. Deborah Keiko ORIDA, a Non-Executive Director of the Company, was appointed as the Director of Nord Anglia Education, a private company headquartered in Hong Kong in late 2017.

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 throughout the six months ended 28 February 2018 except for the following deviation:

Code Provision A.5.1 of the CG Code provides that the Nomination Committee should be chaired by the Chairman of the Board or an Independent Non-executive Director. However, the Nomination Committee of the Company is chaired by Mr. 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 interim 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 throughout the six months ended 28 February 2018.

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

Hong Kong, 19 April 2018

HKBN Ltd.
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