HKBN Ltd.
香港寬頻有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1310

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 28 FEBRUARY 2017

(All references to "$" are to the Hong Kong dollars)

The Board of Directors (the "Board") of HKBN Ltd. (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 28 February 2017. These results were based on the unaudited consolidated interim financial statements for the six months ended 28 February 2017, which were prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

- Revenue and Adjusted Free Cash Flow continued to grow year-on-year at 25% and 3% respectively to $1,535 million and $191 million. EBITDA decreased by 6% to $481 million, due to the two-year contract flow over impact of lower residential ARPU from last year arising from our focus on subscriber growth and the start-up investments associated with our mobile entry in September 2016.

- Since 1 September 2016, we have pivoted our residential focus from subscriber growth to revenue market focus. As such, we traded off a slow down on our net additions for broadband subscriptions at 21,000 (1H2016: 38,000) in return for an acquisition and renewal contract ARPU of $192/month for the month of February 2017, which is well above the historical full base residential ARPU of $166/month for the six months to 28 February 2017.

- Enterprise business revenue more than doubled, reaching $569 million through the full six-month's operation results following our acquisition of the New World Telecom business in March 2016 ("NWT business").

- The Board of Directors has recommended the payment of an interim dividend of 22 cents per share (1H2016: 20 cents per share).

CEO & COO LETTER

Dear Fellow Shareholders,

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

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

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

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

Sincerely yours,

William YEUNG
Chief Executive Officer and Co-Owner

NiQ LAI
Chief Operating Officer and Co-Owner

KEY FINANCIAL AND OPERATIONAL SUMMARY

Table 1: Financial highlights

	For the six months ended 28 February 2017	29 February 2016	Increase/ (Decrease) YoY
Key financials ($'000)			
Revenue	**1,534,726**	1,225,539	+25%
– Residential	**941,025**	898,951	+5%
– Enterprise	**569,222**	269,381	>100%
– Product	**24,479**	57,207	-57%
Profit for the period	**46,034**	135,252	-66%
Adjusted Net Profit [1,2]	**173,985**	209,634	-17%
EBITDA [1,3]	**480,961**	511,266	-6%
EBITDA margin [1,4]	**31.3%**	41.7%	-10.4pp
Adjusted Free Cash Flow [1,5]	**190,855**	185,156	+3%
Reconciliation of Adjusted Net Profit [1,2]			
Profit for the period	**46,034**	135,252	-66%
Amortisation of intangible assets	**64,601**	56,557	+14%
Deferred tax arising from amortisation of intangible assets	**(10,047)**	(9,089)	+11%
Originating fee for banking facility expired	**73,397**	–	+100%
Transaction costs in connection with business combination	**–**	26,914	-100%
Adjusted Net Profit	**173,985**	209,634	-17%
Reconciliation of EBITDA & Adjusted Free Cash Flow [1,3,5]			
Profit for the period	**46,034**	135,252	-66%
Finance costs	**116,922**	66,336	+76%
Interest income	**(89)**	(647)	-86%
Income tax	**43,809**	48,200	-9%
Depreciation	**209,684**	178,654	+17%
Amortisation of intangible assets	**64,601**	56,557	+14%
Transaction costs in connection with business combination	**–**	26,914	-100%
EBITDA	**480,961**	511,266	-6%
Capital expenditure	**(196,616)**	(177,931)	+11%
Net interest paid	**(56,718)**	(51,356)	+10%
Other non-cash items	**4,066**	131	>100%
Income tax paid	**(120,599)**	(104,094)	+16%
Changes in working capital	**79,761**	7,140	>100%
Adjusted Free Cash Flow	**190,855**	185,156	+3%

KEY FINANCIAL AND OPERATIONAL SUMMARY (CONTINUED)

Table 2: Operational highlights

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

Notes:

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

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

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

(4) EBITDA margin means EBITDA divided by revenue.

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

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

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

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

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

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

BUSINESS REVIEW

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

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

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

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

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

- Enterprise revenue, which comprised a full six-month's operation results following our acquisition of NWT business, doubled to $569 million. This growth is indicative that the fully integrated business has increased both our presence and capabilities in the enterprise market, which has enabled us to provide a broader range of products and services at competitive value to different customer segments. During the period, we achieved net additions of 1,000 for a total of 51,000 enterprise customers while our enterprise ARPU maintained at $1,467/month, as a result of integrating with the NWT business. Our market share by broadband subscriptions maintained at 17.8% as of 31 December 2016 (based on the latest available OFCA statistics).

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

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

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

Finance costs increased by 76% year-on-year from $66 million to $117 million mainly due to the one-off finance costs of $73 million in relation to the unamortised transaction cost for the refinanced bank loan. The finance costs were paid in prior period and therefore the one-off write-off of finance costs did not have any impact on cash flow for the period under review. In refinancing, we took advantage of the low interest rate environment to refinance the previous $3,800 million bank facility with a new $3,900 million bank facility as to lower the cost of debt from HIBOR plus 1.85%-2.06% to HIBOR plus 1.35% and to extend the maturity from January 2020 to November 2021. The total net savings of the new 5-year bank facility more than covers the one-off write-off for originating fee for the previous five-year bank facility of $73 million. On a net basis, it is expected that this will provide long term benefit to us.

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

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

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

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

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

OUTLOOK

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

On 28 November 2016, the Group drew down a five-year bank loan of $3,900 million bearing interest rate at HIBOR plus margin, in order to finance the repayment of the remaining bank loan in full. Subsequent to the refinancing transaction completed, the Group's debt maturity was extended by 1.8 years to November 2021. Since the bank loan was repayable in full upon final maturity on November 2021, the Group can either refinance or renew it on maturity or earlier through sources that it deems appropriate at that time. This has provided us with flexibility to plan for various sources of financing arrangements to support the expansion of our business.

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 28 February 2017 and 31 August 2016. As at 28 February 2017, the Group had an undrawn revolving credit facility of $200 million (31 August 2016: $200 million).

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

HEDGING

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

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

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

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

CHARGE ON GROUP ASSETS

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

CONTINGENT LIABILITIES

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

EXCHANGE RATES

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

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

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

TALENT REMUNERATION

As at 28 February 2017, the Group had 2,815 permanent full-time Talents (31 August 2016: 3,024 Talents). The Group provides remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and dependent on both the Group's and individual performances. The Group also provides comprehensive medical insurance coverage, competitive retirement benefits schemes, and Talent training programs.

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

Please refer to "Share Incentive Scheme" below for a summary of the Plan.

SHARE INCENTIVE SCHEME

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

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

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

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

* *Director of the Company*

INTERIM DIVIDEND

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

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 9 May 2017 to Wednesday, 10 May 2017, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Monday, 8 May 2017 in order to establish the identity of the Shareholders who are entitled to qualify for the interim dividend.

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

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

REVIEW OF INTERIM FINANCIAL INFORMATION

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

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

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the "Corporate Governance Code and Corporate Governance Report" (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange throughout the six months ended 28 February 2017 except for the following deviation:

Code Provision A.5.1 of the CG Code provides that the Nomination Committee should be chaired by the Chairman of the Board or an Independent Non-executive Director. However, the Nomination Committee of the Company is chaired by Mr. William Chu Kwong YEUNG ("Mr. Yeung"), an Executive Director and Chief Executive Officer of the Company. By considering that each Independent Non-executive Director of the Company has been appointed as the Chairman of the Board, Audit Committee and Remuneration Committee respectively, the Board appointed Mr. Yeung as the Chairman of the Nomination Committee to make sure that each Director, especially the Independent Non-executive Directors could dedicate sufficient time to perform his role. Since Mr. Yeung is involved in the day-to-day management of the Company and can provide valuable insight on the suitability of a proposed Director, the Board considers that he is capable of assuming the responsibility of the Chairman of Nomination Committee by leading the process of identifying suitable candidates and making recommendations to the Board. As at the date of this Announcement, 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 for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by Directors. Having made specific enquiries with all Directors, they confirm that they have complied with the Model Code throughout the six months ended 28 February 2017.

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

This announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hkbnltd.net). The interim report of the Company for the six months ended 28 February 2017 will be despatched to the shareholders of the Company and made available on the same websites in due course.

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

Hong Kong, 20 April 2017

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

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

Non-executive Director
Ms. Deborah Keiko ORIDA

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

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

UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2017

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

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

	Six months ended 28 February 2017 $'000 (Unaudited)	29 February 2016 $'000 (Unaudited)
Profit for the period	**46,034**	135,252
Other comprehensive income for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, with nil tax effect	**(2,934)**	(2,241)
Total comprehensive income for the period attributable to equity shareholders of the Company	**43,100**	133,011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 28 FEBRUARY 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 28 FEBRUARY 2017

		At 28 February 2017 *$'000* (Unaudited)	At 31 August 2016 *$'000* (Audited)
Non-current liabilities			
Other payables and accrued charges – long-term portion		**293,055**	99,008
Deferred services revenue – long-term portion		**62,534**	55,923
Obligations under granting of rights – long-term portion		**38,355**	42,867
Deferred tax liabilities		**425,405**	450,980
Contingent consideration – long-term portion		**18,583**	27,885
Provision for reinstatement costs		**15,932**	17,644
Bank loans	*10*	**3,827,111**	3,721,297
		4,680,975	4,415,604
NET ASSETS		**1,212,577**	1,363,358
CAPITAL AND RESERVES			
Share capital		**101**	101
Reserves		**1,212,476**	1,363,257
TOTAL EQUITY		**1,212,577**	1,363,358

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION:

1 BASIS OF PREPARATION

The unaudited consolidated interim financial information set out in this announcement does not constitute the Group's unaudited interim financial report for the six months ended 28 February 2017 but is extracted from that unaudited interim report which has been prepared in accordance with the Listing Rules, including compliance with HKAS 34, *Interim financial reporting*, issued by the HKICPA.

The Company was incorporated in the Cayman Islands on 26 November 2014 as an exempted company with limited liability under the Companies Law, Chapter 22 (2013 Revision) of the Cayman Islands.

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements of the Group for the year ended 31 August 2016, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an unaudited 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.

The unaudited interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 August 2016. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with 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.

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

2 CHANGES IN ACCOUNTING POLICIES

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

- *Annual Improvements to HKFRSs 2012-2014 Cycle*

- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

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

3 SEGMENT REPORTING

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

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

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

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

4 REVENUE

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

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

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

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

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

5 PROFIT BEFORE TAXATION

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

	Six months ended 28 February 2017	29 February 2016
	$'000	*$'000*
	(Unaudited)	(Unaudited)
(a) Other net income		
Interest income	**(89)**	(647)
Net foreign exchange gain	**(1,813)**	(1,802)
Amortisation of obligations under granting of rights	**(4,512)**	(4,512)
Change in fair value of contingent consideration	**999**	–
Other income	**(1,492)**	(1,233)
	(6,907)	(8,194)
(b) Talent costs		
Salaries, wages and other benefits	**432,417**	342,343
Contributions to defined contribution retirement plan	**28,361**	24,304
Equity-settled share-based payment expenses	**7,252**	4,354
Cash-settled share-based payment expenses	**328**	289
	468,358	371,290
Less: Talent costs capitalised as property, plant and equipment	**(17,043)**	(13,279)
Talent costs included in advertising and marketing expenses	**(205,251)**	(134,942)
	246,064	223,069

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

	Six months ended 28 February 2017	29 February 2016
(c) Finance costs		
Interest on bank loans	**53,862**	45,884
Interest on interest-rate swap, net	**10,769**	13,959
Fair value (gain)/loss on interest-rate swap	**(21,106)**	6,493
Originating fee for banking facility expired (note 10)	**73,397**	–
	116,922	66,336

5 PROFIT BEFORE TAXATION (CONTINUED)

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

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

6 INCOME TAX

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

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

7 EARNINGS PER SHARE

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

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

8 TRADE RECEIVABLES

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

	At 28 February 2017	At 31 August 2016
	$'000	*$'000*
	(Unaudited)	(Audited)
Within 30 days	**105,116**	103,144
31 to 60 days	**37,780**	26,825
61 to 90 days	**16,588**	10,419
Over 90 days	**8,907**	7,676
	168,391	148,064

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

9 TRADE PAYABLES

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

	At 28 February 2017 *$'000* (Unaudited)	At 31 August 2016 *$'000* (Audited)
Within 30 days	**40,638**	30,306
31 to 60 days	**32,395**	14,019
61 to 90 days	**25,701**	17,472
Over 90 days	**60,148**	45,753
	158,882	107,550

10 BANK LOANS

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

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

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

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

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

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

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

11 DIVIDENDS

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

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

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

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