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 2018

(All references to "$" are expressed in 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 2018. These results were based on the unaudited consolidated interim financial statements for the six months ended 28 February 2018, 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").

- Executing our J-curve growth from the inflection point in 2H2017, as evidenced by strong year-on-year growth in Revenue, EBITDA and Adjusted Free Cash Flow at 22%, 23% and 24%, to $1,868 million, $594 million and $237 million, respectively.

- Residential revenue increased by 17% to $1,101 million, mainly due to the successful execution of our revenue market focus strategy through the use of quad-play service offerings. This allowed us to increase our historical full base residential ARPU[8] by 4% year-on-year, from $166 in 1H2017 to $173 in 1H2018, while keeping our monthly churn rate low.

- Enterprise revenue increased by 19% to $679 million, mainly driven by the continued increase in the number of enterprise customers by 10% to 56,000 and the improvement in ARPU by 4% to $1,526.

- The Board has recommended the payment of an 18% year-on-year increase in interim dividend to 26 cents per share.

SHAREHOLDER LETTER

Dear Fellow Shareholders,

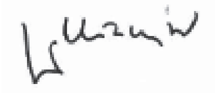
For the six months ended 28 February 2018 ("1H2018"), we executed on our ATM[1] strategy taking profitable market share from the legacy incumbent as to deliver Group revenue, EBITDA and DPS[2] year-on-year growth of 22%, 23% and 18%. We grabbed market share by delivering disruptive value, just like how 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 the New World Telecom ("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 (CONTINUED)

Table 2: Operational highlights

	For the six months ended			
	28 February 2018	31 August 2017	28 February 2017	**Change YoY**
Number 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.

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-month period 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 announcement, 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" below for a summary of the Co-Ownership Plan II.

SHARE INCENTIVE SCHEME

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

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

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

		Number of RSUs						To be vested on 24 January/20 June/29 June/ 20 July/18 August/20 November (As at 28 February 2018)			
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	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*

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 26 cents (28 February 2017: 22 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 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 110% of the Adjusted Free Cash Flow for this interim period due to timing difference of tax payment in 1H2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 7 May 2018 to Tuesday, 8 May 2018, 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 Friday, 4 May 2018 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 2018, 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 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.

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 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 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 2018.

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 2018 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, 19 April 2018

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 2018

		Six months ended	
		28 February	28 February
		2018	2017
	Note	***$'000***	*$'000*
		(Unaudited)	(Unaudited)
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			
Basic	*7*	**24.1 cents**	4.6 cents
Diluted	*7*	**24.0 cents**	4.6 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2018

	Six months ended	
	28 February 2018	28 February 2017
	$'000	*$'000*
	(Unaudited)	(Unaudited)
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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 28 FEBRUARY 2018

	Note	**At 28 February 2018** **$'000** **(Unaudited)**	At 31 August 2017 $'000 (Audited)
Non-current assets			
Goodwill		**1,771,969**	1,771,969
Intangible assets		**1,522,603**	1,612,707
Property, plant and equipment		**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	*8*	**231,235**	205,167
Other receivables, deposits and prepayments		**243,889**	266,321
Amount due from a joint venture		**8,123**	9,244
Cash and cash equivalents		**358,499**	385,052
		862,422	877,608
Current liabilities			
Trade payables	*9*	**100,642**	97,658
Other payables and accrued charges – current portion		**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 (CONTINUED)
AS AT 28 FEBRUARY 2018

	Note	At 28 February 2018 $'000 (Unaudited)	At 31 August 2017 $'000 (Audited)
Non-current liabilities			
Other payables and accrued charges – long-term portion		**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		**3,847,592**	3,831,332
		4,610,021	4,694,177
NET ASSETS		**1,148,744**	1,128,888
CAPITAL AND RESERVES			
Share capital		**101**	101
Reserves		**1,148,643**	1,128,787
TOTAL EQUITY		**1,148,744**	1,128,888

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 2018 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. It was authorised for issue on 19 April 2018.

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 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 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 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 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.

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.

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, 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 significant category of revenue recognised during the period is as follows:

	Six months ended	
	28 February 2018	28 February 2017
	$'000	*$'000*
	(Unaudited)	(Unaudited)
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.

5 PROFIT BEFORE TAXATION

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

	Six months ended 28 February 2018 $'000 (Unaudited)	28 February 2017 $'000 (Unaudited)
(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.

	Six months ended 28 February 2018 $'000 (Unaudited)	28 February 2017 $'000 (Unaudited)
(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 (Unaudited)	28 February 2017 $'000 (Unaudited)
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.

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 (Unaudited)	28 February 2017 '000 (Unaudited)
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 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 2018 *$'000* (Unaudited)	At 31 August 2017 *$'000* (Audited)
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

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 2018 *$'000* (Unaudited)	At 31 August 2017 *$'000* (Audited)
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

10 DIVIDENDS

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

	Six months ended	
	28 February 2018	28 February 2017
	$'000	*$'000*
	(Unaudited)	(Unaudited)
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.

(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 2018	28 February 2017
	$'000	*$'000*
	(Unaudited)	(Unaudited)
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

11 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 results, 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 transactions 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.