HKBN Ltd.
香港寬頻有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1310)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 AUGUST 2018

(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 audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 August 2018.

- Revenue, EBITDA and Adjusted Free Cash Flow ("AFCF") recorded strong year-on-year growth at 22%, 13% and 28%, to $3,949 million, $1,180 million and $578 million, respectively.

- Residential revenue increased by 16% year-on-year to $2,278 million, mainly driven by the robust growth in mobile business, as evidenced by the increase in both number of activated subscribers and monthly ARPU. In addition, our historical full base residential ARPU also increased by 5% year-on-year, from $168/month in FY17 to $176/month in FY18. This provided direct contribution to AFCF.

- Enterprise revenue increased by 14% year-on-year to $1,379 million, mainly driven by the continued increase in the number of enterprise customers by 6% year-on-year to 57,000, and the improvement in ARPU by 3% year-on-year to $1,510/month.

- The Board has recommended final dividend payment of 30 cents per share (FY17: 23 cents per share), resulting in a 24% year-on-year increase in full year payment to 56 cents per share (FY17: 45 cents per share).

SHAREHOLDER LETTER

Dear fellow shareholders,

As a company passionate about pursuing our Core Purpose, we know there's no better way to substantiate our staunch commitment than by delivering exceptional results. FY18 marks a continuation of our planned J-curve upturn with industry-leading year-on-year growth of 22% for revenue, 13% for EBITDA and 28% for Adjusted Free Cash Flow excluding end-use property purchase, which clearly shows that we are assertively taking revenue market share in an overall flat matured market.

Our FY18 achievements were actually a function of our strategic actions 3-4 years ago, such as our expansion into Over-The-Top ("OTT") content in 2014, and mobile resale in 2016 to complete our residential quad-play, as well as our acquisition of New World Telecom in 2016 which doubled our enterprise presence. At the time of these developments, their success was uncertain and it was only with the benefit of hindsight some 3-4 years later that our results proved they were the right moves. This is why our sequential long-term incentive alignment via Co-Ownership Plan II with 3-year tenures was absolutely key to our success, i.e., this was our **Legal Unfair Competitive Advantage ("LUCA")**. With the expiry of our 3-year Co-Ownership Plan II from 2015, we are now in the process of revamping our Co-Ownership Plan III which we aim to finalise and seek shareholder approval after the outcome of our WTT combination described below.

In August 2018, we announced our company transforming combination with WTT, subject to shareholder and regulatory approvals, which will more than double our enterprise revenue. This combination will scale our ability to compete more effectively in the enterprise space, as to deliver far better solutions to Hong Kong corporates.

Since our IPO in 2015, we are far more "Antifragile" (Note 1) today as we now have a robust quad-play presence in residential and are building a far bigger presence in enterprise. At the IPO, we had no idea that such transformative opportunities would arise, but you can say that we were "lucky" in being ready to pounce on such opportunities as they flew by us. Today, we are far better positioned to deliver upon our Core Purpose to "**Make our Hong Kong a better place to live**".

At the end of the day, every management Key Performance Indicator is merely an input factor. The true measures of company value are the contributions we make to Hong Kong society, and our long-term stock price and actual dividend stream. We believe the best management alignment with stakeholders is for management to pay real money from their family savings to become Co-Owners, i.e., putting real skin-in-the-game, of which we proudly had over 330 in FY18, and to roll this over with successive plans.

Sincerely yours,

William Yeung
Co-Owner and Executive Vice-chairman

NiQ Lai
Co-Owner and Chief Executive Officer

Note 1: Antifragile. A term coined by Nassim Nicholas Taleb in his book *Antifragile*. Some things benefit from shocks; they thrive and grow when exposed to volatility, randomness, disorder, and stressors and love adventure, risk, and uncertainty.

KEY FINANCIAL AND OPERATIONAL SUMMARY

Table 1: Financial highlights

	For the year ended 31 August 2018	2017	Change YoY
Key financials *($'000)*			
Revenue	**3,948,952**	3,232,310	+22%
– Residential	**2,278,241**	1,958,286	+16%
– Enterprise	**1,379,183**	1,208,136	+14%
– Product	**291,528**	65,888	>100%
Profit for the year	**396,897**	171,110	>100%
Adjusted Net Profit [1, 2]	**575,423**	377,839	+52%
EBITDA [1, 3]	**1,179,588**	1,041,250	+13%
EBITDA margin [1, 4]	**29.9%**	32.2%	-2.3pp
Adjusted Free Cash Flow [1, 5]	**578,499**	453,365	+28%
Reconciliation of Adjusted Net Profit [1, 2]			
Profit for the year	**396,897**	171,110	>100%
Amortisation of intangible assets	**129,627**	129,202	+0%
Deferred tax arising from amortisation of intangible assets	**(20,164)**	(20,094)	+0%
Originating fee for banking facility expired	**49,275**	73,397	-33%
Transaction costs in connection with business combination	**1,757**	–	+100%
Transaction costs in connection with proposed business combination	**18,031**	–	+100%
Loss on disposal of properties	**–**	24,224	-100%
Adjusted Net Profit	**575,423**	377,839	+52%
Reconciliation of EBITDA & Adjusted Free Cash Flow [1, 3, 5]			
Profit for the year	**396,897**	171,110	>100%
Finance costs	**117,288**	210,740	-44%
Interest income	**(1,641)**	(276)	>100%
Income tax	**92,371**	86,044	+7%
Depreciation	**425,258**	420,206	+1%
Amortisation of intangible assets	**129,627**	129,202	+0%
Transaction costs in connection with business combination	**1,757**	–	+100%
Transaction costs in connection with proposed business combination	**18,031**	–	+100%
Loss on disposal of properties	**–**	24,224	-100%
EBITDA	**1,179,588**	1,041,250	+13%
Capital expenditure*	**(394,480)**	(403,702)	-2%
Net interest paid	**(101,935)**	(107,848)	-5%
Other non-cash items	**1,324**	6,994	-81%
Income tax paid	**(116,234)**	(122,605)	-5%
Changes in working capital#	**10,236**	39,276	-74%
Adjusted Free Cash Flow	**578,499**	453,365	+28%

* *Excluded $39 million partial payment for the purchase of a property in Shatin, which was completed in September 2018.*

\# *Excluded deposit of $33 million paid on acquisition of Cosmo True Limited, a property holding company holding the two network centres currently occupied by the Group, which was completed in September 2018.*

KEY FINANCIAL AND OPERATIONAL SUMMARY (CONTINUED)

Table 2: Operational highlights

	For the year ended 31 August 2018	2017	Change YoY
Residential business			
Fixed telecommunications network services business			
Residential homes passed *('000)*	**2,297**	2,249	+2%
Subscriptions *('000)*			
– Broadband	**860**	871	-1%
– Voice	**500**	518	-3%
Market share [6]			
– Broadband	**36.3%**	37.0%	-0.7pp
– Voice	**21.8%**	22.2%	-0.4pp
Broadband churn rate [7]	**1.1%**	0.9%	+0.2pp
Residential ARPU [8]	**$176**	$168	+5%
Mobile business			
Subscriptions *('000)*	**265**	147	+80%
– Mobile (without broadband services)	**137**	78	+76%
– Mobile (with broadband services)	**128**	69	+86%
Mobile ARPU			
– Mobile (without broadband services) [11]	**$147**	$119	+24%
– Mobile (with broadband services) [12]	**$321**	$268	+20%
Residential customers *('000)*	**1,017**	994	+2%
Enterprise business			
Commercial building coverage *('000)*	**2.4**	2.3	+4%
Subscriptions *('000)*			
– Broadband	**57**	53	+8%
– Voice	**140**	132	+6%
Market share [6]			
– Broadband	**19.3%**	18.9%	+0.4pp
– Voice	**7.7%**	7.2%	+0.5pp
Enterprise customers *('000)*	**57**	54	+6%
Broadband churn rate [9]	**1.2%**	1.7%	-0.5pp
Enterprise ARPU [10]	**$1,510**	$1,463	+3%
Total full-time permanent Talents	**2,981**	2,888	+3%

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 year 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 year under review, include originating fee for banking facility expired. Other non-recurring items, in the year under review, include loss on disposal of properties, transaction costs in connection with business combination and transaction costs in connection with proposed business combination.

(3) EBITDA means profit for the year plus finance costs, income tax expense, transaction costs in connection with business combination, transaction costs in connection with proposed business combination, loss on disposal of properties, 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 year 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 July 2018 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 year ended 31 August 2018, the Group delivered 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 successful integration with NWT last year. As a result, our Group revenue, EBITDA and Adjusted Free Cash Flow increased year-on-year by 22%, 13% and 28%, respectively, to $3,949 million, $1,180 million and $578 million.

- Residential revenue increased 16% year-on-year to $2,278 million in FY18, mainly led by the following:

  For broadband services, historical full base residential ARPU has increased by 5% year-on-year, from $168/month to $176/month, while our total number of residential customers has surpassed the 1 million mark as at 31 August 2018. Nonetheless, we also experienced a net loss in broadband subscriptions due to the churning of price sensitive customers. Our market share by broadband subscriptions decreased slightly to 36% as at 31 July 2018 (based on the latest available OFCA statistics).

  Mobile services were one of the key revenue growth drivers in FY18, where the number of activated subscribers grew by 80% year-on-year to 265,000 and the mobile ARPU increased by 24% year-on-year to $147/month in FY18. This spectacular growth was made possible by our progressive marketing efforts and the launch of high usage data plans to suit our customers' needs.

  OTT services also flourished in FY18, whereby the number of set-top boxes ordered has increased by 59% year-on-year to 835,000 as at 31 August 2018. This represented that the majority of our residential broadband customers have ordered at least one OTT set-top box to enjoy a great archive of content provided by our OTT partner delivered through our hi-speed and stable network service.

  Our value-for-money bundled services continue to be our strongest proposition, which is to deliver unprecedented household savings and service convenience to disrupt the legacy broadband, fixed-voice, content and mobile standalone segments. Our collective broadband and mobile billing relationships shall provide a strong foundation to upsell our quad to multi-play offerings to customers for driving further revenue growth.

- Enterprise revenue increased by 14% year-on-year to $1,379 million. During the year, we achieved net additions of 3,000 year-on-year for a total of 57,000 enterprise customers while our enterprise ARPU improved by 3% year-on-year, from $1,463/month to $1,510/month. 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 of our customer base as well as drive more and more new projects of larger contract sums in the market. Our market share by broadband subscriptions increased to 19% as at 31 July 2018 (based on the latest available OFCA statistics).

- Product revenue increased by 342% year-on-year to $292 million, mainly due to the increased sales of smartphone products that complements our mobile business.

Network costs and costs of sales increased by 76% year-on-year to $1,247 million mainly due to the increase in cost of inventories for the sale of mobile handsets by 501% year-on-year to $273 million and the increase in network costs and cost of services by 47% year-on-year to $974 million. The increase in network cost is mainly due to the significant increase in MVNO costs, which is in line with the significant increase in residential revenue.

Other operating expenses comprised mainly of advertising and marketing expenses, Talent costs, depreciation, amortisation and office expenses. The slight increase of 2% year-on-year from $2,067 million to $2,117 million was mainly due to the increase in advertising and marketing expenses by 6% year-on-year to $605 million. The increase in advertising and marketing expense is mainly due to the increase in sales efforts to support our progressive expansion in mobile business and our quad-play price strategy. This is slightly offset by the decrease in Talent cost by 2% year-on-year to $490 million mainly due to decrease in equity-settled share-based payment expenses and on-going efforts to drive productivity.

Finance costs decreased by 44% year-on-year from $211 million to $117 million mainly due to the fair value gain on the interest-rate swap of $59 million recognised in FY18 versus a $17 million loss in FY17. In addition, the finance costs in relation to the write-off of unamortised transactions cost upon bank loan refinancing also decreased from $73 million in FY17 to $49 million in FY18.

Income tax increased slightly by 7% year-on-year from $86 million to $92 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 18%, respectively, for year ended 31 August 2018 and 31 August 2017. The effective tax rate was lower than the statutory income tax rate due to the utilisation of tax losses that were not previously recognised as deferred tax assets.

As the result of the aforementioned factors, profit attributable to equity shareholders increased to $397 million.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets, non-recurring finance costs and non-recurring items, increased by 52% year-on-year to $575 million.

EBITDA rose by 13% year-on-year to $1,180 million mainly driven by the services revenue growth while managing EBITDA margin at 29.9%.

Adjusted Free Cash Flow rose by 28% year-on-year to $578 million mainly due to an increase in EBITDA, lowered capital expenditure and net interest paid, offset by the lowered cash inflow from working capital changes.

Additions to property, plant and equipment amounted to $431 million for the year ended 31 August 2018, as compared to $364 million last year.

OUTLOOK

Despite the potential for economic slow down, the nature of our services makes us recession resilient and we are well prepared for what may happen. 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:

- 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;

- Fully unlock the potential of the newly acquired cloud solutions and system integration service provider, I Consulting Group Limited, by upselling the new service offerings to our large customer base;

- Plan ahead for the proposed merger with WTT Holding Corp., subject to closing conditions, in order to maximise the potential synergy benefits and to better serve the business community; and

- Continue to cultivate our Talent-oriented Co-Ownership culture that aligns risks and rewards with shareholders by extending the invitation to a broader base of HKBN Talents in the revamped Co-Ownership Plan III after the closing of the proposed WTT Merger*.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 August 2018, the Group had total cash and cash equivalents of $373 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 $3,527 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 3.8x as at 31 August 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 3.0x as at 31 August 2018 (31 August 2017: 3.4x).

* *For the detail of WTT Merger, please refer to "Significant Investments, Acquisitions and Disposals" on page 12.*

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 31 August 2018 and 31 August 2017. As at 31 August 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 31 August 2018, the Group can fund its capital expenditures and working capital requirements for the financial year ending 31 August 2019 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 Financial Officer are primarily responsible for overseeing the hedging activities. Under their guidance, the Group's finance team is responsible for planning, executing and monitoring the hedging activities. The Group would not enter into hedging arrangements for speculative purposes.

In connection with the 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 31 August 2018 and 31 August 2017, no assets of the Group were pledged to secure its loans and banking facilities.

CONTINGENT LIABILITIES

As at 31 August 2018, the Group had total contingent liabilities of $7 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

On 7 August 2018, the Company, its direct wholly-owned subsidiary Metropolitan Light Company Limited ("MLCL"), TPG Wireman, LP ("TPG Wireman") and Twin Holding Ltd ("Twin Holding") entered into a merger agreement, pursuant to which, among other things, MLCL has conditionally agreed to purchase, and TPG Wireman and Twin Holding have conditionally agreed to sell, the entire issued share capital in WTT Holding Corp. ("WTT Holding") for an aggregate consideration of HK$5,489,756,860, of which: (i) HK$3,548,819,204, will be satisfied by the allotment and issuance of consideration shares; and (ii) HK$1,940,937,656 will be satisfied by issuance of vendor loan notes (the "Vendor Loan Notes") (the "WTT Merger"). The consideration shares and the conversion shares convertible under the Vendor Loan Notes will be allotted and issued pursuant to a specific mandate to be sought from the shareholders at the extraordinary general meeting of the Company to be held on 16 November 2018. Following completion of the WTT Merger, WTT Holding and all of its subsidiaries will become indirect wholly-owned subsidiaries of the Company and their financial information will be consolidated into the accounts of the enlarged Group. Please refer to the announcement of the Company dated 7 August 2018 and the circular of the Company dated 26 October 2018 for further details.

On 17 August 2018, HKBN Group Limited ("HKBNGL"), an indirect wholly-owned subsidiary of the Company, entered into a binding memorandum of understanding with Hong Kong Television Network Limited ("HKTNL"), pursuant to which HKBNGL proposes to acquire, and HKTNL proposes to sell or procure the sale of, the entire issued share capital of Cosmo True Limited (宇正有限公司) ("CTL") at a consideration of HK$329,218,608.55 (the "CTL Acquisition"). Upon completion of the CTL Acquisition, HKBNGL will own the entire issued share capital in CTL. Following completion of the CTL Acquisition, CTL will become an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated into the Group. Please refer to the announcements of the Company dated 17 August 2018 and 26 September 2018 for further details.

Save as disclosed, the Group did not make any significant investments, acquisitions or disposals in relation to its subsidiaries and associated companies during the year ended 31 August 2018.

TALENT REMUNERATION

As at 31 August 2018, the Group had 2,981 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 programmes.

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 had over 330 Co-Owners in FY18. 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 announcement of the Company dated 2 November 2017 and the circular of the Company dated 16 November 2017. As at 31 August 2018, there are approximately 650 Talents that are eligible to participate in Co-Ownership Plan III, representing approximately 22% of the total number of existing employees of the Group. No invitations or grants under the Co-Ownership Plan III have been made as the Board has suspended the operation of the Co-Ownership Plan III until the finalisation of the proposed WTT Merger. Please refer to the announcement of the Company dated 7 August 2018 for further details.

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

SHARE INCENTIVE SCHEME

Co-Ownership Plan II

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 year ended 31 August 2018 are as follows:

		Number of RSUs								
								To be vested on 24 January/20 June/20 July/20 November (As at 31 August 2018)		
Participants	**Date of grant**	**Granted**	**As at 1 September 2017**	**Granted during the year**	**Forfeited during the year**	**Vested during the year**	**As at 31 August 2018**	**2018**	**2019**	**2020**
Mr. Chu Kwong YEUNG*	29 June 2015	238,608	119,304	–	–	119,304	–	–	–	–
Mr. Ni Quiaque LAI*	29 June 2015	158,132	79,066	–	–	79,066	–	–	–	–
Other Participants	29 June 2015	2,326,246	967,772	–	47,890	919,882	–	–	–	–
Other Participants	18 August 2015	273,612	129,936	–	2,859	127,077	–	–	–	–
Other Participants	20 November 2015	158,567	15,736	–	9,261	3,236	3,239	3,239	–	–
Mr. Chu Kwong YEUNG*	20 June 2016	194,556	145,917	–	–	48,639	97,278	–	97,278	–
Mr. Ni Quiaque LAI*	20 June 2016	134,241	100,681	–	–	33,560	67,121	–	67,121	–
Other Participants	20 June 2016	1,752,685	1,148,412	–	72,530	370,339	705,543	–	705,543	–
Other Participants	24 January 2017	400,472	386,871	–	26,977	96,704	263,190	–	87,712	175,478
Other Participants	20 July 2017	252,635	252,635	–	30,222	55,599	166,814	–	55,599	111,215
Total		**5,889,754**	**3,346,330**	**–**	**189,739**	**1,853,406**	**1,303,185**	**3,239**	**1,013,253**	**286,693**

* *Director of the Company*

ANNUAL GENERAL MEETING

2018 annual general meeting of the Company (the "2018 AGM") will be held on Friday, 14 December 2018 and the notice will be published and issued to shareholders of the Company in due course.

FINAL DIVIDEND

The Directors recommended the payment of a final dividend of 30 cents per share for the year ended 31 August 2018 (31 August 2017: 23 cents per share) to the shareholders whose names appear on the register of members of the Company on Friday, 21 December 2018. Subject to the approval by the shareholders at the 2018 AGM, the proposed final dividend is expected to be paid in cash on or about Friday, 4 January 2019.

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.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Tuesday, 11 December 2018 to Friday, 14 December 2018, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the 2018 AGM, 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, for registration no later than 4:30 p.m. on Monday, 10 December 2018.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 20 December 2018 to Friday, 21 December 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, 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, for registration no later than 4:30 p.m. on Wednesday, 19 December 2018.

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

During the year ended 31 August 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

REVIEW OF ANNUAL RESULTS AND ANNUAL FINANCIAL STATEMENTS

The Audit Committee has reviewed with the management and the external auditor the audited annual results of the Group for the year ended 31 August 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 audited annual financial statements of the Group for the year ended 31 August 2018 has been reviewed by the Audit Committee and approved by the Board 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 year ended 31 August 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. Chu Kwong YEUNG, an Executive Director 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 year ended 31 August 2018.

PUBLICATION OF FINAL 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 annual report of the Company for the year ended 31 August 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, 1 November 2018

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

Executive Directors
Mr. 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. Yee Kwan Quinn LAW, SBS, JP

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

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2018

	Note	Year ended 31 August 2018 $'000	31 August 2017 $'000
Revenue	4	**3,948,952**	3,232,310
Other net income	5(a)	**22,315**	10,644
Network costs and costs of sales		**(1,247,031)**	(710,257)
Other operating expenses	5(b)	**(2,116,987)**	(2,067,301)
Finance costs	5(d)	**(117,288)**	(210,740)
Share of profits of associates		**–**	3,418
Share of losses of joint ventures		**(693)**	(920)
Profit before taxation	5	**489,268**	257,154
Income tax	6	**(92,371)**	(86,044)
Profit for the year attributable to equity shareholders of the Company		**396,897**	171,110
Earnings per share			
Basic	7	**39.6 cents**	17.1 cents
Diluted	7	**39.6 cents**	17.1 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31AUGUST 2018

	Year ended 31 August 2018 $'000	31 August 2017 $'000
Profit for the year	**396,897**	171,110
Other comprehensive income for the year		
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	**(4,718)**	2,744
Total comprehensive income for the year attributable to equity shareholders of the Company	**392,179**	173,854

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2018

	Note	At 31 August 2018 $'000	At 31 August 2017 $'000
Non-current assets			
Goodwill		**1,804,904**	1,771,969
Intangible assets		**1,454,877**	1,612,707
Property, plant and equipment		**2,293,950**	2,289,790
Interest in joint ventures		**8,095**	8,788
Other non-current assets		**64,950**	24,600
		5,626,776	5,707,854
Current assets			
Inventories		**32,704**	11,824
Trade receivables	*8*	**247,210**	205,167
Other receivables, deposits and prepayments		**292,646**	266,321
Amount due from a joint venture		**8,544**	9,244
Cash and cash equivalents		**373,293**	385,052
		954,397	877,608
Current liabilities			
Trade payables	*9*	**138,918**	97,658
Other payables and accrued charges – current portion		**461,373**	363,181
Deposits received		**69,343**	57,221
Deferred services revenue – current portion		**98,653**	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		**18,597**	27,489
Tax payable		**109,410**	115,875
		915,318	762,397
Net current assets		**39,079**	115,211
Total assets less current liabilities		**5,665,855**	5,823,065

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31AUGUST 2018

	At 31 August 2018 $'000	At 31 August 2017 $'000
Non-current liabilities		
Other payables and accrued charges – long-term portion	**201,266**	293,748
Deferred services revenue – long-term portion	**79,371**	92,752
Obligations under granting of rights – long-term portion	**24,819**	33,843
Deferred tax liabilities	**408,431**	423,618
Contingent consideration – long-term portion	**25,697**	2,869
Provision for reinstatement costs	**15,643**	16,015
Bank loans	**3,873,716**	3,831,332
	4,628,943	4,694,177
NET ASSETS	**1,036,912**	1,128,888
CAPITAL AND RESERVES		
Share capital	**101**	101
Reserves	**1,036,811**	1,128,787
TOTAL EQUITY	**1,036,912**	1,128,888

NOTES:

1 BASIS OF PREPARATION

The financial information set out in this announcement does not constitutes the Group's consolidated financial statement for the year ended 31 August 2018, but is derived from those financial statements.

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that contingent consideration, cash-settled share-based payments and derivative financial instrument are stated at their fair values.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendment to HKFRSs that are first effective for the current account period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in the Group's consolidated financial statements to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows; Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current account 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 year is as follows:

	Year ended	
	31 August 2018	31 August 2017
	$'000	*$'000*
Residential revenue	**2,278,241**	1,958,286
Enterprise revenue	**1,379,183**	1,208,136
Product revenue	**291,528**	65,888
	3,948,952	3,232,310

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):

	Year ended	
	31 August 2018	31 August 2017
	$'000	*$'000*
(a) Other net income		
Interest income	**(1,641)**	(276)
Net foreign exchange loss	**105**	3,248
Amortisation of obligations under granting of rights	**(9,024)**	(9,024)
Change in fair value of contingent consideration	**437**	1,435
Other income	**(12,192)**	(6,027)
	(22,315)	(10,644)

	Year ended 31 August 2018 $'000	31 August 2017 $'000
(b) Other operating expenses		
Advertising and marketing expenses	**605,149**	568,896
Depreciation	**425,258**	420,206
(Gain)/loss on disposal of property, plant and equipment, net	**(203)**	25,922
Impairment losses on trade receivables	**39,693**	41,206
Talent costs *(note 3(c))*	**489,816**	498,848
Amortisation of intangible assets	**122,207**	121,781
Transaction costs in connection with business combination	**1,757**	–
Transaction costs in connection with proposed business combination	**18,031**	–
Others	**415,279**	390,442
	2,116,987	2,067,301
(c) Talent costs		
Salaries, wages and other benefits	**893,939**	846,791
Contributions to defined contribution retirement plan	**58,329**	55,028
Equity-settled share-based payment expenses	**8,621**	14,056
Cash-settled share-based payment expenses	**1,290**	527
	962,179	916,402
Less: Talent costs capitalised as property, plant and equipment	**(31,924)**	(32,703)
Talent costs included in advertising and marketing expenses	**(440,439)**	(384,851)
	489,816	498,848

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

	Year ended 31 August 2018 $'000	31 August 2017 $'000
(d) Finance costs		
Interest on bank loans	**119,711**	101,505
Interest on interest-rate swaps, net	**6,833**	18,664
Fair value (gain)/loss on interest-rate swaps	**(58,531)**	17,174
Originating fee for banking facility expired	**49,275**	73,397
	117,288	210,740
(e) Other items		
Total amortisation of intangible assets	**172,576**	157,802
Operating lease charges in respect of land and buildings: minimum lease payments	**60,436**	45,820
Operating lease charges in respect of telecommunications facilities and computer equipment: minimum lease payments	**264,681**	247,512
Auditor's remuneration		
– audit services	**2,975**	2,912
– non-audit services	**5,135**	501
Research and development costs	**25,045**	21,129
Cost of inventories	**272,946**	45,402

6 INCOME TAX

	Year ended	
	31 August 2018	31 August 2017
	$'000	*$'000*
Current tax – Hong Kong Profits Tax	**104,931**	109,064
Current tax – Outside Hong Kong	**5,060**	4,342
Deferred tax	**(17,620)**	(27,362)
	92,371	86,044

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

Income tax expense for the current taxation outside Hong Kong is mainly related to the income tax in the People Republic of China (the "PRC"). The Corporate Income Tax rate applicable to the subsidiaries located in the PRC is 25% (2017: 25%) for the year.

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 $396,897,000 (2017: $171,110,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,002,116,000 ordinary shares (2017: 1,000,887,000 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 $396,897,000 (2017: $171,110,000) 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:

	Year ended	
	31 August 2018	31 August 2017
	'000	*'000*
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	**1,002,116**	1,000,887
Effect of the Co-Ownership Plan II	**1,185**	2,029
Weighted average number of ordinary shares (diluted)	**1,003,301**	1,002,916

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 31 August 2018	At 31 August 2017
	$'000	*$'000*
Within 30 days	**117,261**	100,751
31 to 60 days	**52,844**	40,343
61 to 90 days	**25,968**	21,984
Over 90 days	**51,137**	42,089
	247,210	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 31 August 2018	At 31 August 2017
	$'000	*$'000*
Within 30 days	**46,123**	50,179
31 to 60 days	**9,786**	16,574
61 to 90 days	**31,038**	6,433
Over 90 days	**51,971**	24,472
	138,918	97,658

10 DIVIDENDS

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

	Year ended	
	31 August 2018	31 August 2017
	$'000	*$'000*
Interim dividend declared and paid of 26 cents per ordinary share (2017: 22 cents per ordinary share)	**261,473**	221,247
Final dividend proposed after the end of the reporting period of 30 cents per ordinary share (2017: 23 cents per ordinary share)	**301,700**	231,303
	563,173	452,550

The final dividend proposed after the end of the reporting period 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 year:

	Year ended	
	31 August 2018	31 August 2017
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 23 cents per ordinary share (2017: 20 cents per ordinary share)	**231,303**	201,133