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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 2015

The Board of Directors of HKBN Ltd. (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 28 February 2015. These results were based on the unaudited consolidated interim financial statements for the six months ended 28 February 2015, 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**”).

- Turnover increased by 10% to HK\$1,126 million.
- EBITDA increased by 15% to HK\$482 million.
- As a result of the impact of one-off finance costs related to refinancing and listing expenses of HK\$160 million collectively, the Group reported a loss of HK\$47 million for the period as compared to a profit of HK\$11 million for the corresponding period last year.
- Adjusted Net Profit increased by 29% to HK\$160 million.
- As our Initial Public Offering (“**IPO**”) was after the interim period, the Board does not recommend the payment of an interim dividend. Our dividend policy is to pay dividends in an amount of not less than 90% of our Adjusted Free Cash Flow with an intention to pay 100% of our Adjusted Free Cash Flow in respect of the relevant period.

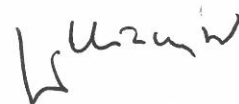
SHAREHOLDER LETTER

Dear Fellow Shareholders,

A strong conviction to core purpose and management credo is vital to our long-term growth.

Please admonish us if we are not genuinely acting towards our core purpose of “Make our Hong Kong a better place to live”.

Please admonish me if I am not living my management credo of “G.O.D. — Give (instead of take), Objectivity (in making decisions) and Daddy (priority of family before work)”.



William Chu Kwong YEUNG
CEO & Co-Owner

With our March 2015 IPO comes great privilege and responsibility. We are one of the few listed companies in Hong Kong that is not controlled by a family office. As a management team with only a small minority ownership of the company, we are true custodians on behalf of our distributed shareholder base.

Our management ethos is based on “Distributed Value Creation”, centered on creating value for customers by offering disruptive benefits. We believe that if we can WOW our customers, our shareholders and ourselves as Co-Owners, we will do very well over time.

Our strategy is to remain focused on doing what we are KickAss good at doing, which is to provide the best “Big Fat Dumb Pipes” and to embrace other partners to fill our pipes in order to deliver the ultimate experience to our customers. For example, there are far better content providers around world with far greater scale and expertise than us, which is why we are scaling down our own IP-TV business in favor of embracing the global over-the-top partners.



Ni Quiaque LAI
Head of Talent Engagement, CFO & Co-Owner

KEY FINANCIAL AND OPERATIONAL SUMMARY

Table 1: Financial highlights

	For the six months ended 28 February		Increase/ (Decrease) YoY
	2015	2014	
Key financials (HK\$'000)			
Turnover	1,126,111	1,020,739	+10%
(Loss)/profit for the period	(46,688)	10,887	n/a
Adjusted Net Profit ^{1,2}	159,559	124,022	+29%
EBITDA ^{1,3}	482,240	417,736	+15%
EBITDA margin ^{1,4}	42.8%	40.9%	+1.9 pp
Adjusted Free Cash Flow ^{1,5}	184,748	178,084	+4%

Reconciliation of Adjusted Net Profit ^{1,2}

(Loss)/profit for the period	(46,688)	10,887
Amortisation of intangible assets	55,083	131,833
Deferred tax arising from amortisation of intangible assets	(9,089)	(21,752)
Loss on extinguishment of senior notes	96,234	3,054
Originating fee for banking facility expired	11,600	—
Listing expenses	52,419	—
Adjusted Net Profit	<u>159,559</u>	<u>124,022</u>

Reconciliation of EBITDA & Adjusted Free Cash Flow ^{1,3,5}

(Loss)/profit for the period	(46,688)	10,887
Finance costs	198,501	96,193
Interest income	(1,909)	(1,361)
Income tax	41,141	22,393
Depreciation	183,693	157,791
Amortisation of intangible assets	55,083	131,833
Listing expenses	52,419	—
EBITDA	482,240	417,736
Capital expenditure	(120,549)	(132,522)
Net interest paid	(87,027)	(84,887)
Other non-cash items	(4,512)	(4,512)
Income tax paid	(84,491)	(40,540)
Changes in working capital	(913)	22,809
Adjusted Free Cash Flow	<u>184,748</u>	<u>178,084</u>

Table 2: Operational highlights

	For the six months ended			Increase/ (Decrease)
	28 February 2015	31 August 2014	28 February 2014	YoY
Key operational statistics				
Residential homes passed ('000)	2,119	2,088	2,057	+3%
Residential broadband				
– Subscriptions ('000)	722	692	662	+9%
– Market share ⁶	35.4%	34.2%	33.0%	+2.4 pp
– Churn rate ⁷	0.6%	0.7%	1.0%	–0.4 pp
Residential ARPU ⁸	HK\$184	HK\$181	HK\$173	+6%
Commercial building coverage ('000)	2.0	1.9	1.9	+5%
Enterprise broadband				
– Subscriptions ('000)	31	28	26	+19%
– Market share ⁶	13.0%	12.0%	11.6%	+1.4 pp
– Churn rate ⁹	0.8%	1.2%	1.1%	–0.3 pp
Enterprise ARPU ¹⁰	HK\$1,025	HK\$1,036	HK\$1,053	–3%
Enterprise customers ('000)	35	32	30	+17%

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 (loss)/profit for the period plus amortisation of intangible assets (net of deferred tax credit), non-recurring finance costs and other non-recurring items. Non-recurring finance costs, in the period under review, include loss on extinguishment of senior notes and originating fee for banking facility expired. Other non-recurring items, in the period under review, include listing expenses.
- (3) EBITDA means (loss)/profit for the period plus finance costs, income tax expense, listing expenses, depreciation and amortisation of intangible assets and less interest income.
- (4) EBITDA margin means EBITDA divided by turnover.
- (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, other non-recurring items and other non-cash items. Working capital includes other non-current assets, inventories, accounts receivable, other receivables, deposits and prepayments, accounts payable, deposits received and deferred services revenue. Other non-cash items, in the period under review, include amortisation of obligations under granting of rights.
- (6) Our market share in residential or enterprise broadband services in Hong Kong is calculated by dividing the number of residential or enterprise broadband subscriptions we have at a given point in time by the total number of residential or enterprise broadband subscriptions recorded by the Office of the Communications Authority (OFCA) at the same point in time. Our market share figures for the six months ended 28 February 2015 are based on our broadband subscriptions and the latest available OFCA statistics as of 31 January 2015.
- (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 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) Calculated by dividing the revenue generated in the relevant period from services subscribed by residential broadband subscribers, which include broadband services and any bundled voice, IP-TV and/or other entertainment services, by the number of average residential broadband subscriptions and further dividing by the number of months in the relevant period. Average residential broadband subscriptions are calculated by dividing the sum of such subscriptions at the beginning of the period and the end of the period by two. Our use and computation of Residential ARPU may differ from the industry definition of ARPU due to our tracking of turnover 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) Calculated by dividing the revenue generated in the relevant period from the enterprise business (excluding revenue from IDD services) by the average number of enterprise customers and further dividing by the number of months in the relevant period. Average number of enterprise customers is calculated by dividing the sum of enterprise customers at the beginning of the period and the end of the period by two. This metric may be distorted by the impact of certain particularly large contracts we have with enterprise customers.

BUSINESS REVIEW

During the six months ended 28 February 2015, the Group delivered a solid set of operational and financial results, forming a foundation for growth in both residential and enterprise businesses.

- Turnover grew by 10% year-on-year to HK\$1,126 million driven by strong growth in broadband subscriptions and gains in market share for both residential and enterprise businesses.
- Residential revenue grew by 9% year-on-year to HK\$872 million as we continued to gain market share within the residential broadband market mainly by converting our competitors' legacy copper-based customers to our fibre-based services. During the six months ended 28 February 2015, we achieved 30,000 net additions to 722,000 residential broadband subscriptions together with a 6% year-on-year increase in residential ARPU to HK\$184. Our market share by broadband subscriptions increased to 35.4% as of 31 January 2015 (latest available data), up from 33.0% as of 28 February 2014.
- Enterprise revenue grew by 10% year-on-year to HK\$229 million as the enterprise business continued to build on positive momentum with our focus in the small and medium-sized enterprise (SME) segment and developing a comprehensive set of service offerings to serve these customers. During the six months ended 28 February 2015, we achieved 3,000 net additions to enterprise customers to 35,000 which more than offset a 3% year-on-year decrease in enterprise ARPU to HK\$1,025. Our market share by broadband subscriptions increased to 13.0% as of 31 January 2015 (latest available data), up from 11.6% as of 28 February 2014.
- Network costs and costs of sales dropped by 2% year-on-year to HK\$129 million from HK\$132 million mainly due to lower IP-TV content costs as we continue to scale down this operation.
- Other operating expenses increased by 6% year-on-year to HK\$814 million from HK\$765 million. Excluding the impact of listing expenses of HK\$52 million, other operating expenses remained stable as the increase in advertising and marketing expenses, depreciation and Talent costs for driving business growth was offset by the decrease in amortisation of intangible assets.
- Finance costs increased by 106% year-on-year to HK\$199 million from HK\$96 million mainly due to the one-off finance costs of HK\$108 million relating to the refinancing of 5.25% senior notes, comprising the loss on extinguishment of senior notes of HK\$96 million and originating fee for banking facility expired of HK\$12 million. On 19 January 2015, the Group drew down a five-year bank loan of HK\$3,100 million bearing interest at HIBOR plus 2.06% per annum to finance the redemption of the remaining 5.25% senior notes in full. This refinancing

improved the Group's debt maturity profile with a two-year time extension and offered the Group an opportunity to achieve long term savings in borrowing costs. The Group entered into an interest rate swap arrangement with the notional amount of HK\$2,635 million for a term of 3.5 years commencing from 23 February 2015, fixing the HIBOR interest rate exposure at 1.453% per annum. Under the current hedging arrangement, 85% of the bank loan will effectively bear interest at a fixed rate of 3.513% per annum whereas the remaining 15% will bear interest at a floating rate of HIBOR plus 2.06% per annum, as compared to the interest rate of 5.25% per annum for the senior notes redeemed.

- Income tax amounted to HK\$41 million for the period, as compared to HK\$22 million for the corresponding period last year, as the listing expenses and refinancing costs were not tax deductible.
- Amid the impact of one-off finance costs related to refinancing of HK\$108 million and listing expenses of HK\$52 million, collectively HK\$160 million, the Group reported a loss of HK\$47 million for the six months ended 28 February 2015 as compared to a profit of HK\$11 million for the corresponding period last year. The refinancing served to improve the debt maturity profile of the Group and lower its long term borrowing costs.
- Adjusted Net Profit, excluding the impact of amortisation of intangible assets, non-recurring finance costs and non-recurring items, increased by 29% year-on-year to HK\$160 million.
- EBITDA rose by 15% year-on-year to HK\$482 million, with EBITDA margin improved to 42.8% from 40.9% in the corresponding period last year.
- Adjusted Free Cash Flow increased by 4% year-on-year to HK\$185 million amid an increase in income tax paid and a swing in working capital.
- Additions to fixed assets amounted to HK\$165 million for the six months ended 28 February 2015, as compared to HK\$133 million for the corresponding period last year.

OUTLOOK

We will strive to harvest our substantially invested network and 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 cultivate a Talent-oriented Co-Ownership culture that align risks and rewards with shareholders by enlarging the base of Co-Owners via the new Co-Ownership Plan II which will be launched soon;

- Expand our network coverage by focusing on economically attractive residential premises and commercial buildings;
- Enhance our customer yield through segmentation and up-selling;
- Further penetrate the enterprise market with a strong focus on small businesses; and
- Enhance our EBITDA margin through operating leverage and effective cost management.

LIQUIDITY AND CAPITAL RESOURCES

As at 28 February 2015, the Group had total cash and cash equivalents amounting to HK\$353 million (31 August 2014: HK\$436 million) and outstanding borrowing of HK\$3,010 million (31 August 2014: HK\$2,994 million), which led to a net debt position of HK\$2,657 million (31 August 2014: HK\$2,558 million). The Group's gearing ratio, which was expressed as a percentage of the gross debt over total equity, was 221% as at 28 February 2015 (31 August 2014: 182%).

On 19 January 2015, the Group drew down a five-year bank loan of HK\$3,100 million bearing interest rate at HIBOR plus 2.06% per annum, in order to finance the redemption of the remaining 5.25% senior notes in full. Since the bank loan is repayable in full upon final maturity, the Group can either refinance or renew it on maturity or earlier through sources that it deems appropriate at that time. This provides us with flexibility to plan for various sources of financing arrangement to support the expansion of our business.

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 28 February 2015 and 31 August 2014. As at 28 February 2015, the Group had an undrawn revolving credit facility of HK\$200 million (31 August 2014: HK\$100 million).

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the financial year ending 31 August 2015 with internal resources and available banking facilities.

HEDGING

The Group's policy is to 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 existing bank loan, the Group entered into an interest rate swap arrangement with the notional amount of HK\$2,635 million with an international financial institution for a term of 3.5 years commencing from 23 February 2015. Under the current hedging arrangement, the Group fixed the HIBOR interest rate exposure at 1.453% per annum.

CHARGE ON GROUP ASSETS

As of 28 February 2015 and 31 August 2014, no assets of the Group were pledged to secure its loans and banking facilities.

CONTINGENT LIABILITIES

As at 28 February 2015, the Group had total contingent liabilities in respect of guarantees provided to suppliers and utility vendors in lieu of payment of utility deposits of HK\$5 million (31 August 2014: HK\$5 million).

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 the People's Republic of China (the "PRC"). 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.

TALENT REMUNERATION

As at 28 February 2015, the Group had 2,351 permanent full-time Talents versus 2,596 as of 31 August 2014. 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 during the current financial period under review.

To attract, retain and motivate skilled and experienced Talents, the Company adopted a Co-Ownership Plan II (the "Plan") on 21 February 2015. Under the Plan, the Board may, in its absolute discretion, invite participants to purchase shares of the Company and agree to grant them a contingent right to receive shares at the relevant matching ratio in respect of any shares purchased, subject to certain terms, conditions and undertakings. As at the date of this announcement, no invitations or grants under the Plan has been made.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the Company was not listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) until 12 March 2015 (the “**Listing Date**”), neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 28 February 2015.

INTERIM DIVIDEND

Dividend of HK\$230 million declared to the former immediate holding company prior to the completion of a group reorganisation was approved on 18 February 2015 and recognised as dividend payable to the former immediate holding company as at 28 February 2015. The dividend was paid on 9 March 2015.

Except for the above, the Board does not recommend the payment of an interim dividend. Our dividend policy is to pay dividends in an amount of not less than 90% of our Adjusted Free Cash Flow with an intention to pay 100% of our Adjusted Free Cash Flow in respect of the relevant period (pro rata for the number of days since the Listing Date for current financial year), after adjusting for potential debt repayment, if required.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 28 February 2015. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management and the external auditor of the Company, KPMG.

The unaudited interim financial report of the Group for the six months ended 28 February 2015 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

Throughout the period from the Listing Date to the date of this announcement, the Company has applied the principles of and has complied with all code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”).

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 own code of conduct for dealings in securities of the Company by directors. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code throughout the period from the Listing Date to the date of this announcement.

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 2015 will be dispatched to the shareholders of the Company and made available on the same websites in due course.

By order of the Board of Directors

HKBN Ltd.

Bradley Jay Horwitz

Chairman

Hong Kong, 29 April 2015

As at the date of this announcement, the Board of Directors of the Company comprises Bradley Jay Horwitz as Chairman and Independent Non-executive Director, William Chu Kwong Yeung and Ni Quiaque Lai as Executive Directors, Roy Kuan as Non-executive Director and Stanley Chow and Quinn Yee Kwan Law, SBS, JP as Independent Non-executive Directors.

“Where the English and the Chinese texts conflicts, the English text prevails”

UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2015

		Six months ended	
		28 February	28 February
		2015	2014
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	4	1,126,111	1,020,739
Other net income	5(b)	9,841	5,910
Network costs and costs of sales		(128,851)	(131,738)
Other operating expenses	5(a)	(814,147)	(765,438)
Finance costs	5(c)	(198,501)	(96,193)
(Loss)/profit before taxation	5	(5,547)	33,280
Income tax	6	(41,141)	(22,393)
(Loss)/profit for the period attributable to equity shareholders of the Company		(46,688)	10,887
(Loss)/earnings per share	7		
Basic and diluted		(4.7) cents	1.1 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2015

	Six months ended	
	28 February	28 February
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	(46,688)	10,887
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	<u>(2,065)</u>	<u>(995)</u>
Total comprehensive income for the period attributable to equity shareholders of the Company	<u>(48,753)</u>	<u>9,892</u>

CONSOLIDATED BALANCE SHEET
AS AT 28 FEBRUARY 2015

		At 28 February 2015 HK\$'000 (Unaudited)	At 31 August 2014 HK\$'000 (Audited)
	<i>Note</i>		
Non-current assets			
Goodwill		1,594,110	1,594,110
Intangible assets		1,385,585	1,440,668
Fixed assets		1,937,114	1,957,006
Other non-current assets		12,805	9,252
		<u>4,929,614</u>	<u>5,001,036</u>
Current assets			
Inventories		12,565	21,680
Accounts receivable	8	88,315	79,995
Other receivables, deposits and prepayments		213,523	181,084
Cash and cash equivalents		352,752	435,630
		<u>667,155</u>	<u>718,389</u>
Current liabilities			
Accounts payable	9	10,654	11,611
Other payables and accrued charges		274,537	306,625
Deposits received		30,903	32,021
Deferred services revenue – current portion		65,266	84,399
Obligations under granting of rights – current portion		9,024	9,024
Dividend payable to the former immediate holding company		230,158	–
Contingent consideration – current portion		3,215	6,145
Tax payable		83,197	102,523
		<u>706,954</u>	<u>552,348</u>
Net current (liabilities)/assets		<u>(39,799)</u>	<u>166,041</u>
Total assets less current liabilities		<u>4,889,815</u>	<u>5,167,077</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 28 FEBRUARY 2015

	At 28 February 2015 HK\$'000 (Unaudited)	At 31 August 2014 HK\$'000 (Audited)
Non-current liabilities		
Derivative financial instrument	13,206	–
Deferred services revenue		
– long-term portion	12,491	7,932
Obligations under granting of rights		
– long-term portion	56,403	60,915
Deferred tax liabilities	433,873	457,897
Contingent consideration		
– long-term portion	–	3,430
Senior notes	–	2,994,058
Bank loan	3,009,908	–
	<u>3,525,881</u>	<u>3,524,232</u>
NET ASSETS	<u>1,363,934</u>	<u>1,642,845</u>
CAPITAL AND RESERVES		
Share capital	100	8
Reserves	1,363,834	1,642,837
TOTAL EQUITY	<u>1,363,934</u>	<u>1,642,845</u>

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 2015 but is extracted from that unaudited interim report which has been prepared in accordance with the Listing Rules, including compliance with HKAS 34, *Interim financial reporting*, issued by the HKICPA.

The Company was incorporated in the Cayman Islands on 26 November 2014 as an exempted company with limited liability under the Companies Law, Chapter 22 (2013 Revision) of the Cayman Islands. As part of a group reorganisation, the entire issued share capital of Metropolitan Light Company Limited ("**MLCL**") was transferred to the Company in consideration for an issue of the Company's shares to Metropolitan Light Holdings Limited ("**MLHL**") (the "**Share Transfer**") on 17 February 2015. MLHL was the immediate holding company of MLCL prior to the Share Transfer. Upon the completion of the Share Transfer, the Company became the parent company of MLCL and its subsidiaries, and the holding company of the Group.

MLHL transferred, by way of distribution, all of the Company's shares held by it to its shareholders on 11 March 2015.

MLCL was incorporated in the Cayman Islands on 15 March 2012. On 30 May 2012, MLCL acquired the telecommunication business from Hong Kong Television Network Limited ("**HKTV**", formerly known as "**City Telecom (H.K.) Limited**").

The companies that took part in the Share Transfer were controlled by the same ultimate equity shareholders before and after the Share Transfer and there were no changes in the business and operations of MLCL and its subsidiaries. The Share Transfer only involved incorporating the Company with no prior substantive operations as the holding company of MLCL and the Group. Accordingly, the Share Transfer has been accounted for using a principle similar to that for a reverse acquisition with MLCL treated as the acquirer for accounting purposes.

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 2014, except for the accounting policy changes that are expected to be reflected in the 2015 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.

1 BASIS OF PREPARATION (CONTINUED)

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 2014. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 August 2014 that is included in the unaudited interim financial report as being previously reported information does not constitute the the Group's financial statements for that financial year but is derived from those annual financial statements.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. None of these developments have significant impact to the Group's results and financial position.

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

3 SEGMENT REPORTING

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

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

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

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

4 TURNOVER

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

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

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

	Six months ended	
	28 February	28 February
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Residential revenue	871,671	798,832
Enterprise revenue	229,328	208,258
Product revenue	25,112	13,649
	1,126,111	1,020,739

5 (LOSS)/PROFIT BEFORE TAXATION

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

	Six months ended	
	28 February	28 February
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(a) Other operating expenses		
Advertising and marketing expenses	191,409	179,427
Depreciation	183,693	157,791
Gain on disposal of fixed assets, net	(33)	(3,687)
Impairment losses on accounts receivable	12,028	7,926
Talent costs (<i>note 5(d)</i>)	198,989	171,742
Amortisation of intangible assets	55,083	131,833
Listing expenses	52,419	–
Others	120,559	120,406
	814,147	765,438

5 (LOSS)/PROFIT BEFORE TAXATION (CONTINUED)

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

	Six months ended	
	28 February	28 February
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(b) Other net income		
Interest income	(1,909)	(1,361)
Net foreign exchange loss	724	2,283
Other income	(1,979)	(2,320)
Amortisation of obligations under granting of rights	(4,512)	(4,512)
Change in fair value of contingent consideration	(2,165)	–
	<u>(9,841)</u>	<u>(5,910)</u>
(c) Finance costs		
	Six months ended	
	28 February	28 February
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank loan	10,173	–
Interest on interest-rate swap, net	462	–
Interest on senior notes	66,826	93,139
Fair value loss on interest-rate swap	13,206	–
Loss on extinguishment of senior notes	96,234	3,054
Originating fee for banking facility expired	11,600	–
	<u>198,501</u>	<u>96,193</u>

5 (LOSS)/PROFIT BEFORE TAXATION (CONTINUED)

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

(d) Talent costs

	Six months ended	
	28 February 2015 HK\$'000 (Unaudited)	28 February 2014 HK\$'000 (Unaudited)
Salaries, wages and other benefits	310,628	278,056
Contributions to defined contribution retirement plan	24,233	24,034
	<u>334,861</u>	<u>302,090</u>
Less: Talent costs capitalised as fixed assets	(12,467)	(10,051)
Talent costs included in advertising and marketing expenses	(123,405)	(120,297)
	<u>198,989</u>	<u>171,742</u>

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 2015 HK\$'000 (Unaudited)	28 February 2014 HK\$'000 (Unaudited)
(e) Other items		
Net foreign exchange loss	724	2,283
Depreciation of fixed assets	183,693	157,791
Operating lease charges in respect of land and buildings: minimum lease payments	18,151	19,813
Operating lease charges in respect of telecommunications facilities and computer equipment: minimum lease payments	61,708	61,617
Research and development costs	9,896	8,088
Cost of inventories	23,159	10,820
	<u>297,231</u>	<u>270,412</u>

6 INCOME TAX

	Six months ended	
	28 February 2015 HK\$'000 (Unaudited)	28 February 2014 HK\$'000 (Unaudited)
Current tax – Hong Kong Profits Tax	62,777	40,251
Current tax – Outside Hong Kong	2,388	2,444
Deferred tax	(24,024)	(20,302)
	<u>41,141</u>	<u>22,393</u>

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 2014: 16.5%) of the estimated assessable profits for the six months ended 28 February 2015.

Income tax expense for the current taxation outside Hong Kong is mainly related to the income tax in the PRC and is similarly calculated using the estimated annual effective rate of taxation that is expected to be in the PRC.

7 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK\$46,688,000 (six months ended 28 February 2014: profit of HK\$10,887,000) and the weighted average number of 1,000,000,000 ordinary shares (six months ended 28 February 2014: 1,000,000,000 ordinary shares) in issue during the interim period. The weighted average number of ordinary shares in issue during the six months ended 28 February 2015 and 2014 is based on the assumption that 1,000,000,000 ordinary shares were in issue as if these ordinary shares issued at the date the Company became the holding company of the Group were outstanding throughout both periods presented.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is the same as basic (loss)/earnings per share for the six months ended 28 February 2015 and 2014 as there were no dilutive potential ordinary shares during both periods presented.

8 ACCOUNTS RECEIVABLE

As of the balance sheet date, the ageing analysis of accounts receivable, based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 28 February 2015 HK\$'000 (Unaudited)	At 31 August 2014 HK\$'000 (Audited)
Within 30 days	66,070	55,506
31 to 60 days	15,786	13,229
61 to 90 days	5,360	4,032
Over 90 days	1,099	7,228
Accounts receivable, net of allowance for doubtful debts	88,315	79,995

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

9 ACCOUNTS PAYABLE

As of the balance sheet date, the ageing analysis of accounts payable, based on the invoice date, is as follows:

	At 28 February 2015 HK\$'000 (Unaudited)	At 31 August 2014 HK\$'000 (Audited)
Within 30 days	4,004	4,503
31 to 60 days	1,938	3,237
61 to 90 days	163	12
Over 90 days	4,549	3,859
Accounts payable	10,654	11,611

10 SUBSEQUENT EVENTS

The following significant events took place subsequent to 28 February 2015:

- (a) On 12 March 2015, the shares of the Company became listed on the Main Board of The Stock Exchange of Hong Kong Limited.
- (b) On 27 March 2015, the Company capitalised an amount of HK\$567 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 5,666,666 ordinary shares for allotment and issue to the appointed trustee, in which the shares are held on trust by the appointed trustee until their release to the beneficiaries upon the vesting of the restricted share units granted pursuant to the Co-Ownership Plan II.