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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

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2015**

(All references to “\$” are to the Hong Kong dollars)

The Board of Directors 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 2015.

- Turnover, EBITDA and Adjusted Free Cash Flow increased year-on-year by 10%, 16% and 26% respectively to \$2,341 million, \$979 million and \$392 million.
- Net additions of residential broadband subscriptions accelerated to 62,000 (2014: 32,000), with our market share by broadband subscriptions increasing to 36.6% as of 31 August 2015, up from 34.2% as of 31 August 2014. Average monthly broadband churn rate improved from 0.8% to 0.6% during the year.
- The Board of Directors has recommended the payment of a final dividend of 20 HK cents per share.

SHAREHOLDER LETTER

Dear Fellow Shareholders,

We look back at FY2015 with pride as we have taken another step forward with our core purpose to **“Make our Hong Kong a better place to live”**. At HKBN, we realise that with only 1,338 colleagues based in Hong Kong, we are too small to change Hong Kong directly but we are big enough to take the pioneering steps for others to follow.

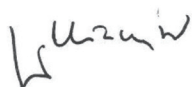
Key FY2015 achievements include:

- 1) We delivered a solid set of results with 62,000 net additions of residential broadband subscriptions (adding 2.4% market share gain) together with Revenue, EBITDA and Adjusted Free Cash Flow growth of 10%, 16% and 26% respectively.
- 2) We extended our Co-Owners from about 90 pre Initial Public Offering to currently over 270, representing the majority of our supervisors and above colleagues. As our Co-Ownership requires a “family” investment, this expanded Co-Ownership reflects higher trust and commitment from our colleagues.
- 3) We implemented a number of material LIFE-work priorities, significantly shortening our work week, freeing up more time to spend with our families.

We are very excited by the opportunities awaiting our industry over the next 5 years. We look forward to 2016 to be the year that Over-The-Top (the “OTT”) content providers make their disruptive presence felt in Hong Kong, and envision the OTT industry surpassing traditional legacy Pay-TV and IP-TV in terms of revenue by 2020. Better content and mass 4K Ultra High Definition video take-up should fuel demand for our ultra-high-speed fibre broadband services for many years to come.

At HKBN, we dare to dream big. We dare to shoot for the stars, and sometimes miss, as it is better to settle for hitting the moon than aiming for the hills and getting there.

Sincerely yours,



William Yeung
CEO & Co-Owner



NiQ Lai
Head of Talent Engagement,
CFO & Co-Owner

KEY FINANCIAL AND OPERATIONAL SUMMARY

Table 1: Financial highlights

	For the year ended 31 August		Increase/ Decrease YoY
	2015	2014	
Key financials (\$'000)			
Turnover	2,341,113	2,131,581	+10%
Profit for the year	104,268	53,550	+95%
Adjusted Net Profit ^{1,2}	359,955	253,940	+42%
EBITDA ^{1,3}	978,622	845,281	+16%
EBITDA margin ^{1,4}	41.8%	39.7%	+2.1pp
Adjusted Free Cash Flow ^{1,5}	391,622	310,814	+26%

Reconciliation of Adjusted Net Profit ^{1,2}

Profit for the year	104,268	53,550	+95%
Amortisation of intangible assets	110,167	225,292	-51%
Deferred tax arising from amortisation of intangible assets	(18,177)	(37,173)	-51%
Loss on extinguishment of senior notes	96,234	8,633	+1015%
Originating fee for banking facility expired	11,600	–	n/a
Listing expenses	55,863	–	n/a
Loss on disposal of interests in subsidiaries	–	3,638	-100%
Adjusted Net Profit	359,955	253,940	+42%

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

Profit for the year	104,268	53,550	+95%
Finance costs	260,023	191,570	+36%
Interest income	(2,794)	(3,714)	-25%
Income tax	85,582	51,488	+66%
Depreciation	365,513	327,095	+12%
Amortisation of intangible assets	110,167	225,292	-51%
Listing expenses	55,863	–	n/a
EBITDA	978,622	845,281	+16%
Capital expenditure	(324,084)	(345,601)	-6%
Net interest paid	(138,543)	(165,120)	-16%
Other non-recurring items	–	3,638	-100%
Other non-cash items	(7,479)	(9,024)	-17%
Income tax paid	(85,864)	(42,845)	+100%
Changes in working capital	(31,030)	24,485	n/a
Adjusted Free Cash Flow	391,622	310,814	+26%

KEY FINANCIAL AND OPERATIONAL SUMMARY (CONTINUED)

Table 2: Operational highlights

	For the year ended 31 August		Increase/ Decrease YoY
	2015	2014	
Residential business			
Residential homes passed ('000)	2,143	2,088	+3%
Subscriptions ('000)			
– Broadband	754	692	+9%
– Voice	534	576	-7%
Market share ⁶			
– Broadband	36.6%	34.2%	+2.4pp
– Voice	22.0%	23.4%	-1.4pp
Residential customers ('000)	822	779	+6%
Broadband churn rate ⁷	0.6%	0.8%	-0.2pp
Residential ARPU ⁸	\$183	\$175	+5%
Enterprise business			
Commercial building coverage ('000)	2.0	1.9	+5%
Subscriptions ('000)			
– Broadband	35	28	+25%
– Voice	98	81	+21%
Market share ⁶			
– Broadband	14.3%	12.0%	+2.3pp
– Voice	5.3%	4.4%	+0.9pp
Enterprise customers ('000)	39	32	+22%
Broadband churn rate ⁹	0.8%	1.2%	-0.4pp
Enterprise ARPU ¹⁰	\$1,010	\$1,026	-2%

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), non-recurring finance costs and other non-recurring items. Non-recurring finance costs, in the year under review, include loss on extinguishment of senior notes and originating fee for banking facility expired. Other non-recurring items, in the year under review, include listing expenses.
- (3) EBITDA means profit for the year 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 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.
- (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) ARPU means average revenue per user per month. Calculated by dividing the revenue generated in the relevant period from services subscribed by residential broadband subscribers, which include broadband services and any bundled voice, IP-TV and/or other entertainment services, by the number of average residential broadband subscriptions and further dividing by the number of months in the relevant period. Average residential broadband subscriptions are calculated by dividing the sum of such subscriptions at the beginning of the period and the end of the period by two. Our use and computation of residential ARPU may differ from the industry definition of ARPU due to our tracking of 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) ARPU means average revenue per user per month. 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 year ended 31 August 2015, the Group delivered a solid set of operational and financial results. Our market share by broadband subscriptions increased further in both residential and enterprise businesses. Turnover, EBITDA and Adjusted Free Cash Flow increased year-on-year by 10%, 16% and 26% respectively to \$2,341 million, \$979 million and \$392 million.

Turnover grew by 10% year-on-year to \$2,341 million driven by strong growth in broadband subscriptions and gains in market share for both residential and enterprise businesses.

- Residential revenue grew by 8% year-on-year to \$1,757 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 year ended 31 August 2015, we achieved 62,000 net additions to 754,000 residential broadband subscriptions together with a 5% year-on-year increase in residential ARPU to \$183. Our market share by broadband subscriptions increased to 36.6% as of 31 August 2015, up from 34.2% as of 31 August 2014.
- Enterprise revenue grew by 12% year-on-year to \$476 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 year ended 31 August 2015, we achieved 7,000 net additions to 39,000 enterprise customers which more than offset a 2% year-on-year decrease in enterprise ARPU to \$1,010 as a result of our focus on small enterprise accounts. Our market share by broadband subscriptions increased to 14.3% as of 31 August 2015, up from 12.0% as of 31 August 2014.
- Product revenue grew by 39% year-on-year to \$109 million, representing 4.7% of turnover.

Network costs and costs of sales rose by 7% year-on-year to \$306 million mainly due to higher costs of sales amidst the increase in product revenue, partly offset by lower IP-TV content costs and IDD costs.

Other operating expenses increased by 3% year-on-year to \$1,602 million. Excluding the impact of listing expenses of \$56 million, other operating expenses fell by 1% year-on-year.

- Advertising and marketing expenses, Talent costs and depreciation increased year-on-year by 6%, 9% and 12% respectively to \$399 million, \$404 million and 366 million to drive business growth.
- Amortisation of intangible assets fell by 51% to \$110 million since one category of intangible assets, namely backlog of fixed telecommunications network services ("FTNS") contracts with residential and enterprise customers, had been fully amortised during the year ended 31 August 2014.

Finance costs increased by 36% year-on-year to \$260 million mainly due to the one-off finance costs of \$108 million relating to the refinancing of 5.25% senior notes, comprising the loss on extinguishment of senior notes of \$96 million and originating fee for banking facility expired of \$12 million.

- Finance costs excluding the loss on extinguishment of senior notes and originating fee for bank facility expired amounted to \$152 million for the year as compared to \$183 million for the previous year.
- On 19 January 2015, the Group drew down a five-year bank loan of \$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 to January 2020 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 \$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 during the period covered by the interest-rate swap. 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 \$86 million for the year as compared to \$51 million for the previous year. The Group's finance costs and listing expenses were not tax deductible. Income tax as a percentage of profit before taxation, finance costs and listing expenses was approximately 17% for each of the years ended 31 August 2015 and 2014.

Profit attributable to equity shareholders increased by 95% year-on-year to \$104 million despite the impact of one-off finance costs related to refinancing of \$108 million and listing expenses of \$56 million, collectively \$164 million.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets, non-recurring finance costs and non-recurring items, increased by 42% year-on-year to \$360 million.

EBITDA rose by 16% year-on-year to \$979 million, with EBITDA margin improving by 2.1 percentage points to 41.8% from 39.7% in the previous year.

Adjusted Free Cash Flow increased by 26% year-on-year to \$392 million.

Additions to fixed assets amounted to \$380 million for the year ended 31 August 2015, as compared to \$346 million for the previous year.

OUTLOOK

We will strive to harvest our substantially invested network and leverage our comprehensive suite of service offerings to drive sustainable growth in Turnover, EBITDA and Adjusted Free Cash Flow through the following initiatives:

- Continue to cultivate and deepen our Talent-oriented Co-Ownership culture that aligns risks and rewards with shareholders by enlarging the base of Co-Owners via the newly launched Co-Ownership Plan II;
- Expand our network coverage by focusing on economically attractive residential premises and commercial buildings;
- Disrupt the Pay-TV market by offering world-class broadband and OTT entertainment at breakthrough prices and redefine the way Hong Kong people enjoy their Internet entertainment;
- 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 31 August 2015, the Group had total cash and cash equivalents of \$329 million (31 August 2014: \$436 million) and gross debt (principal amount of outstanding borrowing) of \$3,100 million (31 August 2014: \$3,041 million), which led to a net debt position of \$2,771 million (31 August 2014: \$2,605 million).

- The Group's gearing ratio, which was expressed as a percentage of the gross debt over total equity, was 205% as at 31 August 2015 (31 August 2014: 185%).
- The Group's net debt to EBITDA ratio, which was expressed as a percentage of the gross debt net of cash and cash equivalents over EBITDA for the last twelve months, was 2.8 times as at 31 August 2015 (31 August 2014: 3.1 times).

On 19 January 2015, the Group drew down a five-year bank loan of \$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 in January 2020, 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 31 August 2015 and 31 August 2014. As at 31 August 2015, the Group had an undrawn revolving credit facility of \$200 million (31 August 2014: \$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 2016 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 in the principal amount of \$2,635 million with an international financial institution for a term of 3.5 years commencing from 23 February 2015. Benefiting from the hedging arrangement, the Group fixed the HIBOR interest rate exposure at 1.453% per annum. This interest-rate swap arrangement is recognised initially at fair value and remeasured at each balance sheet date. The interest-rate swap does not qualify for hedge accounting under HKAS 39, *Financial instruments: Recognition and measurement*, and therefore, it is accounted for as held for trading and measured at fair value through profit or loss.

CHARGE ON GROUP ASSETS

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

CONTINGENT LIABILITIES

As at 31 August 2015, the Group had total contingent liabilities of \$4 million (31 August 2014: \$5 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

During the year ended 31 August 2015, the Group did not make any significant investments, acquisitions or disposals in relation to its subsidiaries and associated companies.

TALENT REMUNERATION

As at 31 August 2015, the Group had 2,430 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.

To attract, retain and motivate skilled and experienced Talents, the Company adopted a Co-Ownership Plan II (the "Plan") on 21 February 2015. Co-Ownership is a powerful expression of the commitment and belief our Talents have in the Group. Unlike the more traditional approach of giving stock options to a very limited group of senior executives, the Company's Co-Ownership is open to all supervisors and above level Talents, spanning the Group's operations across Hong Kong and Guangzhou. Under "Co-Ownership Plan II", we now have over 270 Co-Owners, representing a majority of our supervisors and above level Talents and over 10% of our entire workforce. On their own volition, they invested their personal savings in the amount of between two to six months of salary to acquire the Company's shares at full market price. The shares are then matched with free shares at a certain ratio vested over three years.

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

SHARE INCENTIVE SCHEME

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

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

Grants were made under the Plan on 29 June 2015 and 18 August 2015 with details below:

Participants	Date of grant	Number of RSUs granted	Vesting on 29 June/18 August		
			2016	2017	2018
Mr. William Chu Kwong Yeung*	29 June 2015	238,608	59,652	59,652	119,304
Mr. Ni Quiaque Lai*	29 June 2015	158,132	39,533	39,533	79,066
Other Participants	29 June 2015	2,326,246	581,471	581,471	1,163,304
Other Participants	18 August 2015	273,612	68,386	68,386	136,840
Total		2,996,598	749,042	749,042	1,498,514

* *Director of the Company*

ANNUAL GENERAL MEETING

2015 annual general meeting of the Company (the “2015 AGM”) will be held on Tuesday, 15 December 2015 and the notice will be published and issued to shareholders of the Company (the “Shareholders”) in due course.

FINAL DIVIDEND

The Directors recommended the payment of a final dividend of 20 HK cents per share for the year ended 31 August 2015 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 23 December 2015. Subject to the approval by the Shareholders at the 2015 AGM, the proposed final dividend is expected to be paid in cash on or about Thursday, 7 January 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 11 December 2015 to Tuesday, 15 December 2015 both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 10 December 2015 in order to establish the identity of the Shareholders who are entitled to attend and vote at the 2015 AGM.

The register of members of the Company will be closed from Tuesday, 22 December 2015 to Wednesday, 23 December 2015, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on Monday, 21 December 2015 in order to establish the identity of the Shareholders who are entitled to qualify for the final dividend.

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

The Company was not listed on the Stock Exchange until the Listing Date. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to 31 August 2015.

REVIEW OF ANNUAL RESULTS AND ANNUAL FINANCIAL STATEMENTS

The Audit Committee has reviewed with management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the audited annual results and audited annual financial statements for the year ended 31 August 2015.

The consolidated results set out in this announcement do not constitute the Group's annual financial statements for the year ended 31 August 2015 but are extracted from those financial statements. The financial information has been reviewed by the Audit Committee, approved by the Board and agreed by the Group's external auditor, KPMG to the amounts set out in the audited financial statements.

CORPORATE GOVERNANCE

Throughout the period from the Listing Date to 31 August 2015, the Company has applied the principles of and has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the following deviation:

Code Provision A.5.1 of the CG Code provides that the nomination committee should be chaired by the chairman of the board or an independent non-executive director. However, the nomination committee of the Company is chaired by Mr. William Chu Kwong Yeung, an executive Director and chief executive officer of the Company. By considering that each independent non-executive Director of the Company has been appointed as the chairman of the board, audit committee and remuneration committee respectively, the Board appointed Mr. Yeung as the chairman of the nomination committee to make sure that each director, especially the independent non-executive Directors could dedicate sufficient time to perform his role. Since Mr. Yeung is involved in the day-to-day management of the Company and can provide valuable insight on the suitability of a proposed director, the Board considers that he is capable of assuming the responsibility of the chairman of nomination committee by leading the process of identifying suitable candidates and making recommendations to the Board. As at the date of this Announcement, the remaining three members in the nomination committee are all 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 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, they have complied with the required standard set out in the Model Code throughout the period from the Listing Date to 31 August 2015.

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 2015 will be dispatched to the Shareholders 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, 2 November 2015

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

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

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2015

	<i>Note</i>	2015 \$'000	2014 \$'000
Turnover	<i>4</i>	2,341,113	2,131,581
Other net income	<i>5(a)</i>	16,772	12,925
Network costs and costs of sales		(305,930)	(287,121)
Other operating expenses	<i>5(b)</i>	(1,601,975)	(1,560,777)
Finance costs	<i>5(d)</i>	(260,023)	(191,570)
Share of losses of joint ventures		(107)	—
Profit before taxation	<i>5</i>	189,850	105,038
Income tax	<i>6</i>	(85,582)	(51,488)
Profit for the year attributable to equity shareholders of the Company		104,268	53,550
Earnings per share	<i>7</i>		
Basic		10.4 cents	5.4 cents
Diluted		10.4 cents	5.4 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2015

	2015 \$'000	2014 \$'000
Profit for the year	104,268	53,550
Other comprehensive income for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong, with nil tax effect	<u>(4,299)</u>	<u>(383)</u>
Total comprehensive income for the year attributable to equity shareholders of the Company	<u>99,969</u>	<u>53,167</u>

CONSOLIDATED BALANCE SHEET
AS AT 31 AUGUST 2015

	<i>Note</i>	2015 \$'000	2014 \$'000
Non-current assets			
Goodwill		1,594,110	1,594,110
Intangible assets		1,330,501	1,440,668
Fixed assets		1,969,803	1,957,006
Interests in joint ventures		9,893	–
Other non-current assets		19,503	9,252
		4,923,810	5,001,036
Current assets			
Inventories		14,373	21,680
Accounts receivable	8	81,685	79,995
Other receivables, deposits and prepayments		201,910	181,084
Amount due from a joint venture		329	–
Cash and cash equivalents		328,950	435,630
		627,247	718,389
Current liabilities			
Accounts payable	9	6,561	11,611
Other payables and accrued charges		217,394	306,625
Deposits received		33,385	32,021
Deferred services revenue – current portion		55,168	84,399
Obligations under granting of rights – current portion		9,024	9,024
Amount due to the former substantial shareholder	1	33,372	–
Amounts due to joint ventures		10,000	–
Contingent consideration – current portion		2,457	6,145
Tax payable		121,222	102,523
		488,583	552,348
Net current assets		138,664	166,041
Total assets less current liabilities		5,062,474	5,167,077

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 AUGUST 2015

	2015 \$'000	2014 \$'000
Non-current liabilities		
Derivative financial instrument	13,413	–
Deferred services revenue – long-term portion	13,844	7,932
Obligations under granting of rights – long-term portion	51,891	60,915
Deferred tax liabilities	438,916	457,897
Contingent consideration – long-term portion	–	3,430
Provision for reinstatement costs	11,334	–
Senior notes	–	2,994,058
Bank loan	3,018,889	–
	<u>3,548,287</u>	<u>3,524,232</u>
NET ASSETS	<u>1,514,187</u>	<u>1,642,845</u>
CAPITAL AND RESERVES		
Share capital	101	8
Reserves	1,514,086	1,642,837
TOTAL EQUITY	<u>1,514,187</u>	<u>1,642,845</u>

NOTES

1 BASIS OF PREPARATION

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. The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period, as permitted by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32). The financial statements also comply with the applicable disclosure provisions of the Listing Rules.

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 “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.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 12 March 2015 (the “Listing”). Upon the Listing, all of the shares offered were sold by the then shareholders, the Company did not issue any new shares. The proceeds from the initial public offering were approximately \$6,508 million, after deduction of underwriting fees and commissions, in which \$517 million was received by the Group on behalf of the former substantial shareholder and the Company remitted \$484 million to the former substantial shareholder. The remaining balance of \$33 million was recorded in the amount due to the former substantial shareholder.

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”).

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 financial statements has been prepared and presented as a continuation of the consolidated financial statements of MLCL and its subsidiaries, with the assets and liabilities of the Group recognised and measured at their historical carrying amounts prior to the Share Transfer, and as if the group structure upon completion of the Share Transfer had been in existence since 15 March 2012, the date of incorporation of MLCL.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that contingent consideration and derivative financial instrument are stated at their fair values.

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. Of these, the following developments are relevant to the Group’s financial statements:

- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- *Annual Improvements to HKFRSs 2010-2012 Cycle*

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

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Annual Improvements to HKFRSs 2010-2012 Cycle

This cycle of annual improvements contain amendments to seven standards with consequential amendments to other standards. Among them, HKAS 24, *Related party disclosures* has been amended to expand the definition of a “related party” to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group’s related party disclosures as the Group does not obtain key management personnel services from management entities.

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 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 year is as follows:

	2015 \$’000	2014 \$’000
Residential revenue	1,756,511	1,630,472
Enterprise revenue	475,738	422,975
Product revenue	108,864	78,134
	<u>2,341,113</u>	<u>2,131,581</u>

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):

	2015 \$'000	2014 \$'000
(a) Other net income		
Interest income	(2,794)	(3,714)
Net foreign exchange loss/(gain)	576	(437)
Amortisation of obligations under granting of rights	(9,024)	(9,024)
Change in fair value of contingent consideration	(2,923)	–
Other (income)/loss	(2,607)	250
	<u>(16,772)</u>	<u>(12,925)</u>
(b) Other operating expenses		
Advertising and marketing expenses	399,215	377,975
Depreciation	365,513	327,095
(Gain)/loss on disposal of fixed assets, net	(323)	1,377
Impairment losses on accounts receivable	18,838	15,417
Talent costs (<i>note 5(c)</i>)	404,442	369,404
Amortisation of intangible assets	110,167	225,292
Listing expenses	55,863	–
Others	248,260	244,217
	<u>1,601,975</u>	<u>1,560,777</u>
(c) Talent costs		
Salaries, wages and other benefits	636,045	591,236
Contributions to defined contribution retirement plan	45,662	46,429
Equity-settled share-based payment expenses	1,531	–
Cash-settled share-based payment expenses	14	–
	<u>683,252</u>	<u>637,665</u>
Less: Talent costs capitalised as fixed assets	(25,188)	(20,961)
Talent costs included in advertising and marketing expenses	<u>(253,622)</u>	<u>(247,300)</u>
	<u>404,442</u>	<u>369,404</u>

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

5 PROFIT BEFORE TAXATION (CONTINUED)

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

	2015 \$'000	2014 \$'000
(d) Finance costs		
Interest on bank loan	57,421	–
Interest on interest-rate swap, net	14,529	–
Interest on senior notes	66,826	182,937
Fair value loss on interest-rate swap	13,413	–
Loss on extinguishment of senior notes	96,234	8,633
Originating fee for banking facility expired	11,600	–
	<u>260,023</u>	<u>191,570</u>
(e) Other items		
Amortisation of deferred expenditure	–	5,915
Operating lease charges in respect of land and buildings: minimum lease payments	30,018	39,471
Operating lease charges in respect of telecommunications facilities and computer equipment: minimum lease payments	122,796	125,056
Auditors' remuneration		
– audit services	1,580	878
– review services	300	190
– tax services	120	202
Research and development costs	19,970	18,746
Cost of inventories	105,366	60,025
Loss on disposal of interests in subsidiaries	–	3,638
	<u>–</u>	<u>3,638</u>

6 INCOME TAX

	2015 \$'000	2014 \$'000
Current tax – Hong Kong Profits Tax	100,915	83,548
Current tax – Outside Hong Kong	3,648	4,830
Deferred tax	(18,981)	(36,890)
	<u>85,582</u>	<u>51,488</u>

The provision for Hong Kong Profits Tax for 2015 is calculated at 16.5% (2014: 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's Republic of China (the "PRC"). The Corporate Income Tax rate applicable to the subsidiary located in the PRC is 25% (2014: 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 \$104,268,000 (2014: \$53,550,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,000,000,000 ordinary shares (2014: 1,000,000,000 ordinary shares). The calculation 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 years ended 31 August 2015 and 2014 presented.

(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 \$104,268,000 (2014: \$53,550,000) 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:

	2015 '000	2014 '000
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	1,000,000	1,000,000
Effect of the Co-Ownership Plan II	1,084	—
	<u>1,001,084</u>	<u>1,000,000</u>
Weighted average number of ordinary shares (diluted)	<u>1,001,084</u>	<u>1,000,000</u>

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:

	2015 \$'000	2014 \$'000
Within 30 days	60,383	55,506
31 to 60 days	14,542	13,229
61 to 90 days	4,619	4,032
Over 90 days	2,141	7,228
	<u>81,685</u>	<u>79,995</u>
Accounts receivable, net of allowance for doubtful debts	<u>81,685</u>	<u>79,995</u>

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:

	2015 \$'000	2014 \$'000
Within 30 days	2,537	4,503
31 to 60 days	12	3,237
61 to 90 days	11	12
Over 90 days	<u>4,001</u>	<u>3,859</u>
Accounts payable	<u><u>6,561</u></u>	<u><u>11,611</u></u>

10 DIVIDENDS

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

	2015 \$'000	2014 \$'000
Final dividend proposed after the balance sheet date of 20 cents per ordinary share (2014: Nil cents per ordinary share)	<u><u>201,133</u></u>	<u><u>—</u></u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividend of US\$29,660,000 (equivalent to \$230,158,000) declared to the former immediate holding company prior to the completion of the Reorganisation was approved on 18 February 2015 and paid on 9 March 2015.