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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 2016**

(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 2016.

- Revenue, EBITDA and Adjusted Free Cash Flow continued to grow year-on-year at 19%, 3% and 4% respectively to \$2,784 million, \$1,006 million and \$406 million.
- Net additions of residential broadband subscriptions accelerated to 103,000 (2015: 62,000), with our market share by broadband subscriptions increasing to 40.1% as of 31 August 2016, up from 36.6% as of 31 August 2015.
- This set of results included 5 months of consolidation from our New World Telecom acquisition which drove our enterprise revenue growth of 70% year-on-year to \$811 million.
- The Board has recommended the payment of a final dividend of 20 HK cents per share, (2015: 20 HK cents per share) resulting in a full year payment of 40 HK cents per share (2015: 20 HK cents per share).

SHAREHOLDER LETTER

Dear Fellow Shareholders,

FY16 was a transformative year for our company.

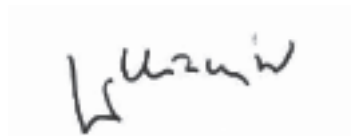
In residential, we evolved from offering just a double-play of broadband and fixed voice to full service quad-play by first partnering with OTT providers to offer content, and then later in the calendar year, partnering with two major mobile network operators to offer mobile services.

We roughly estimate the addressable market for double-play at \$250 per household per month or \$5 billion¹/year. This figure expands to \$400 per household per month or \$8 billion¹/year when we include content, and further expands to \$1,000 per household per month or \$24 billion¹/year when we include mobile service for a full quad-play offering. With 898,000 residential customers, we have a total billing market share of 44%², which suggests room for growth relative to our 7%³ revenue market share of the expanded quad-play market.

In enterprise solutions, we completed the acquisition of New World Telecom (“NWT”) in March 2016, and so far, the integration has been very smooth. In particular, the voluntary election by 54 former NWT Talents to become Co-Owners of our company with investments of up to one year’s worth of salary, showcases the aligned conviction we have to make this integration work.

As a company run by >340 Co-Owners, we have a clear long term alignment of interest with shareholders, as we are shareholders ourselves.

Sincerely yours,



William Yeung
Chief Executive Officer and Co-Owner



NiQ Lai
Chief Talent & Financial Officer and Co-Owner

Note 1: The addressable market size of double-play, triple-play and quad-play are calculated by multiplying the estimated number of addressable households (2 million) within the Group’s coverage by the service penetration rate and the estimated annualized ARPU for respective services.

Note 2: Billing market share is calculated by dividing the number of residential customers by the estimated number of addressable households (2 million) within the Group’s coverage.

Note 3: Revenue market share of the expanded quad-play market share is calculated by dividing the residential revenue generated in FY16 \$1.8 billion by the estimated quad-play market size \$24 billion.

KEY FINANCIAL AND OPERATIONAL SUMMARY

Table 1: Financial highlights

	For the year ended 31 August 2016	2015	Increase/ (Decrease) YoY
Key financials (\$'000)			
Revenue	2,784,007	2,341,113	+19%
– Residential	1,814,940	1,756,511	+3%
– Enterprise	810,831	475,738	+70%
– Product	158,236	108,864	+45%
Profit for the year	244,679	104,268	>100%
Adjusted Net Profit ^{1,2}	372,672	359,955	+4%
EBITDA ^{1,3}	1,006,387	978,622	+3%
EBITDA margin ^{1,4}	36.1%	41.8%	-5.7pp
Adjusted Free Cash Flow ^{1,5}	406,447	391,622	+4%

Reconciliation of Adjusted Net Profit ^{1,2}

Profit for the year	244,679	104,268	>100%
Amortisation of intangible assets	119,758	110,167	+9%
Deferred tax arising from amortisation of intangible assets	(19,008)	(18,177)	+5%
Loss on extinguishment of senior notes	–	96,234	-100%
Originating fee for banking facility expired	–	11,600	-100%
Listing expenses	–	55,863	-100%
Transaction costs in connection with business combination	27,243	–	+100%
Adjusted Net Profit	372,672	359,955	+4%

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

Profit for the year	244,679	104,268	>100%
Finance costs	141,891	260,023	-45%
Interest income	(922)	(2,794)	-67%
Income tax	89,875	85,582	+5%
Depreciation	383,863	365,513	+5%
Amortisation of intangible assets	119,758	110,167	+9%
Listing expenses	–	55,863	-100%
Transaction costs in connection with business combination	27,243	–	+100%
EBITDA	1,006,387	978,622	+3%
Capital expenditure	(392,553)	(324,084)	+21%
Net interest paid	(104,228)	(138,543)	-25%
Other non-cash items	3,169	(7,479)	n/a
Income tax paid	(106,068)	(85,864)	+24%
Changes in working capital	(260)	(31,030)	-99%
Adjusted Free Cash Flow	406,447	391,622	+4%

KEY FINANCIAL AND OPERATIONAL SUMMARY (CONTINUED)

Table 2: Operational highlights

	For the year ended 31 August 2016	2015	Increase/ (decrease) YoY
Residential business			
Residential homes passed ('000)	2,202	2,143	+3%
Subscriptions ('000)			
– Broadband	857	754	+14%
– Voice	520	534	-3%
Market share ⁶			
– Broadband	40.1%	36.6%	+3.5pp
– Voice	22.0%	22.0%	+0.0pp
Residential customers ('000)	898	822	+9%
Broadband churn rate ⁷	0.8%	0.6%	+0.2pp
Residential ARPU ⁸	\$173	\$183	-5%
Enterprise business			
Commercial building coverage ('000)	2.3	2.0	+15%
Subscriptions ('000)			
– Broadband	47	35	+34%
– Voice	120	98	+22%
Market share ⁶			
– Broadband	17.8%	14.3%	+3.5pp
– Voice	6.5%	5.3%	+1.2pp
Enterprise customers ('000)	50	39	+28%
Broadband churn rate ⁹	1.3%	0.8%	+0.5pp
Enterprise ARPU ¹⁰	\$1,234	\$1,010	+22%

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 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 and transaction costs in connection with business combination.
- (3) EBITDA means profit for the year plus finance costs, income tax expense, listing expenses, transaction costs in connection with business combination, depreciation and amortisation of intangible assets (net of direct cost incurred in corresponding period) and less interest income.
- (4) EBITDA margin means EBITDA divided by revenue.
- (5) Adjusted Free Cash Flow means EBITDA plus interest received and less capital expenditure, interest paid and tax paid, and adjusted by changes in working capital and other non-cash items. Working capital includes other non-current assets, inventories, trade receivables, other receivables, deposits and prepayments, trade payables, deposits received and deferred services revenue. Other non-cash items, in the 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 financial period. Monthly broadband churn rate is calculated by the sum of the number of residential broadband subscription terminations in a month divided by the average number of residential broadband subscriptions during the respective month and multiplying the result by 100%.
- (8) ARPU means average revenue per user per month. Calculated by dividing the revenue generated in the relevant period from services subscribed by residential broadband subscribers, which include broadband services and any bundled voice, IP-TV and/or other entertainment services, by the number of average residential broadband subscriptions and further dividing by the number of months in the relevant period. Average residential broadband subscriptions are calculated by dividing the sum of such subscriptions at the beginning of the period and the end of the period by two. Our use and computation of residential ARPU may differ from the industry definition of ARPU due to our tracking of revenue generated from all services subscribed by residential broadband subscribers. We believe this gives us a better tool for observing the performance of our business as we track our residential ARPU on a bundled rather than standalone basis.
- (9) Calculated by dividing the sum of the monthly broadband churn rate for each month of the given financial period by the number of months in the period. Monthly broadband churn rate is calculated by the sum of the number of enterprise broadband subscription terminations in a month divided by the average number of enterprise broadband subscriptions during the respective month and multiplying the result by 100%.
- (10) ARPU means average revenue per user per month. Calculated by dividing the revenue generated in the relevant period from the enterprise telecom business (excluding revenue from IDD services) by the average number of enterprise customers and further dividing by the number of months in the relevant period. Average number of enterprise customers is calculated by dividing the sum of enterprise customers at the beginning of the period and the end of the period by two. This metric may be distorted by the impact of certain particularly large contracts we have with enterprise customers. For reference, enterprise ARPU on August 2016 is approximately \$1,421, calculated by dividing the revenue generated in the relevant month from the enterprise telecom business from both HKBN and NWT businesses (excluding revenue from IDD services) by the number of enterprise customers of both HKBN and NWT in the respective month.

BUSINESS REVIEW

During the year ended 31 August 2016, the Group continued to deliver a solid set of operational and financial results, which was underpinned by our partnerships with over-the-top (“OTT”) content providers and doubling of scale in the enterprise market after the acquisition of New World Telecom (“NWT acquisition”). As a result, our group revenue, EBITDA and Adjusted Free Cash Flow increased year-on-year by 19%, 3% and 4% to \$2,784 million, \$1,006 million and \$406 million respectively.

- Residential revenue grew by 3% year-on-year to \$1,815 million as we accelerated gains in residential broadband subscriptions by working closely with two major OTT partners, TVB and LeEco, to launch our best value content-bundled services in the market. As growth in market share was the Group’s key strategic focus for the year, we traded off 5% decline in residential ARPU to \$173/month to achieve accelerated 103,000 net additions (2015: 62,000 net additions) for a total of 857,000 residential broadband subscriptions. Our market share by broadband subscriptions increased to 40.1% as of 31 August 2016, up from 36.6% as of 31 August 2015.
- Enterprise revenue grew by 70% year-on-year to \$811 million driven primarily by the 5 months of consolidation on our NWT acquisition. Excluding the contribution from the NWT acquisition, our enterprise revenue grew by 20% year-on-year to \$570 million, resulted from our continued focus on the small and medium-sized enterprise (SME) segment. Strengthening the Group’s presence in the enterprise market, the NWT acquisition has provided a broad range of complementary services to the existing business. During the year ended 31 August 2016, we achieved net additions of 11,000 to 50,000 enterprise customers while increasing our enterprise ARPU by 22% at \$1,234, as a result of integrating with the NWT acquisition businesses. Our market share by broadband subscriptions increased to 17.8% as of 31 August 2016, up from 14.3% as of 31 August 2015.
- Product revenue grew by 45% year-on-year to \$158 million, representing 6% of revenue. This increase was primarily due to promotional offers that bundled LeEco with our residential broadband services.

Network costs and costs of sales rose by 47% year-on-year to \$451 million mainly due to the incremental network costs for the operations of NWT.

Other operating expenses increased by 17% year-on-year to \$1,873 million. Excluding the 5-month incremental operating expenses incurred by the NWT acquisition of \$135 million and the impact of listing expenses and transaction costs in connection with business combination of \$56 million and \$27 million respectively, such expenses rose by 9% year-on-year mainly due to the incremental advertising and marketing expenses and the Talent costs to drive the accelerated growth of residential broadband subscription.

Finance costs decreased by 45% year-on-year to \$142 million mainly due to the dropping of one-off finance costs of \$108 million relating to the refinancing of 5.25% senior notes incurred last year and the reduction in the average cost of debt following the refinancing transaction completed last year.

Income tax increased by 5% to \$90 million mainly due to the steady business performance during the year. The Group's finance costs, listing expenses and transaction costs in connection with business combination were not tax deductible. Income tax as a percentage of profit before taxation, finance costs, listing expenses and transaction costs in connection with business combination was approximately 18% and 17% for the year ended 31 August 2016 and 2015 respectively.

Profit attributable to equity shareholders increased to \$245 million.

Adjusted Net Profit, excluding the impact of amortisation of intangible assets, non-recurring finance costs and non-recurring items, increased by 4% year-on-year to \$373 million.

EBITDA rose by 3% year-on-year to \$1,006 million, whilst EBITDA margin decreased to 36.1% due to lower EBITDA margin of the NWT acquisition and the incremental advertising and marketing expenses to drive accelerated subscription growth this year.

Adjusted Free Cash Flow rose by 4% year-on-year to \$406 million mainly due to an increase in EBITDA and a decrease in net interest paid as a result of refinancing transaction last year, offset by an increase in capital expenditure.

Net additions to property, plant and equipment amounted to \$412 million for the year ended 31 August 2016, as compared to \$380 million last year. Such increase was mainly due to accelerated growth in residential broadband subscription and certain upgrade of our network infrastructure.

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 and deepen our Talent-oriented Co-Ownership culture that aligns risks and rewards with shareholders by enlarging the base of Co-Owners via the Co-Ownership scheme to HKBN Talents;
- Through MVNO partnering with two major mobile network operators to deliver high quality mobile services, we plan to leverage our quad-play bundle plans to disrupt the legacy broadband, fixed-voice, multimedia content and mobile standalone services; and
- Execute the synergy plan from integration of the NWT acquisition and to further grow our enterprise solutions business.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 August 2016, the Group had total cash and cash equivalents of \$355 million (31 August 2015: \$329 million) and gross debt (principal amount of outstanding borrowing) of \$3,800 million (31 August 2015: \$3,100 million), which led to a net debt position of \$3,445 million (31 August 2015: \$2,771 million).

- The Group's gearing ratio, which was expressed as a ratio of the gross debt over total equity, was 2.8x as at 31 August 2016 (31 August 2015: 2.0x).
- 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 3.4x as at 31 August 2016 (31 August 2015: 2.8x).

In March 2016, the Group has entered into a five-year bullet term loan of \$700 million ("Term Loan") underwritten by JPMorgan Chase Bank, N.A., Hong Kong Branch to finance the NWT acquisition which resulted in the increase of the Group's gearing ratio and net debt to EBITDA ratios.

With the inception of the new bank loan, the Group's weighted average debt maturity was slightly extended to 3.6 years as of 31 August 2016. The existing debt maturity profile maintains the Group's flexibility to either refinance or renew it on maturity or earlier through sources that it deems appropriate at that time. This also provided us with flexibility to plan for various sources of financing arrangements to support the expansion of our business.

Cash and cash equivalents consisted of cash at bank and in hand. There was no pledged bank deposit as at 31 August 2016 and 31 August 2015. As at 31 August 2016, the Group had an undrawn revolving credit facility of \$200 million (31 August 2015: \$200 million).

Under the liquidity and capital resources condition as at 31 August 2016, the Group can fund its capital expenditures and working capital requirements for the financial year ending 31 August 2017 with internal resources and the available banking facilities.

HEDGING

The Group's policy is to partially hedge the interest rate risk arising from the variable interest rates of the debt instruments and facilities by entering into interest-rate swaps. The Chief Executive Officer and Chief Talent & 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 the end of each reporting period. The interest-rate swap does not qualify for hedge accounting under HKAS 39, *Financial instruments: Recognition and measurement*, and therefore, it is accounted for as held for trading and measured at fair value through profit or loss.

CHARGE ON GROUP ASSETS

As of 31 August 2016 and 31 August 2015, no assets of the Group were pledged to secure its loans and banking facilities.

CONTINGENT LIABILITIES

As at 31 August 2016, the Group had total contingent liabilities of \$4 million (31 August 2015: \$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 18 February 2016, HKBN Group Limited ("HKBNGL") as purchaser and the Company as guarantor of HKBNGL entered into a share purchase agreement with New World Telephone Holdings Limited ("NWTHL") as seller and New World Development Company Limited as guarantor of NWTHL, to acquire the telecommunications and online marketing solutions business owned by NWTHL through the acquisition of the entire issued share capital of Concord Ideas Ltd. and Simple Click Investments Limited (the "Target Companies") for a cash consideration calculated on a cash-free, debt-free basis, of \$650 million.

In addition, on 31 March 2016, HKBNGL and NWTHL also entered into a rebate agreement whereby HKBNGL will provide cash rebates for services provided by the Group, the Target Companies and their subsidiaries to New World Development Company Limited (a company whose shares are listed on The Stock Exchange of Hong Kong Limited, stock code: 17) and Chow Tai Fook Enterprises Limited, in each case together with their respective subsidiaries and related parties (within the meaning of Hong Kong Financial Reporting Standard 24 *Related Party Disclosures*) based on 50% of settled invoices up to \$50 million in aggregate.

The NWT acquisition was completed on 31 March 2016. After the Acquisition, each of Concord Ideas Ltd. and Simple Click Investments Limited became an indirect wholly-owned subsidiary of the Company. Details of the Acquisition are disclosed in the circular of the Company dated 1 March 2016 and the announcement dated 18 February 2016.

On 6 July 2016, HKBNGL as seller and Dynamic Team Holdings Limited as purchaser entered into a sale and purchase agreement to sell 51% of the issued share capital of Simple Click Investments Limited for a total consideration of \$8 million (the “Disposal”). The Disposal was completed on 6 July 2016. After the Disposal, Simple Click Investments Limited became a 49%-owned associate of the Company. Details of the Disposal are disclosed in the announcements of the Company dated 6 and 15 July 2016.

Other than the aforementioned NWT Acquisition and Disposal, 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 2016.

TALENT REMUNERATION

As at 31 August 2016, the Group had 3,024 permanent full-time Talents (31 August 2015: 2,430 Talents). The Group provides remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and dependent on both the Group’s and individual performances. The Group also provides comprehensive medical insurance coverage, competitive retirement benefits schemes, and Talent training programs.

To attract, retain and motivate skilled and experienced Talents, the Company adopted a Co-Ownership Plan II (the “Plan”) on 21 February 2015. Co-Ownership is a powerful expression of the commitment and belief our Talents have in the Group. Unlike the more traditional approach of giving stock options to a very limited group of senior executives, the Company’s Co-Ownership is open to all supervisors and above level Talents, spanning the Group’s operations across Hong Kong and Guangzhou. Under “Co-Ownership Plan II”, we now have over 340 Co-Owners, representing a majority of our supervisors and above level Talents which constitutes over 11% of our entire workforce. On their own volition, they invested their personal savings in the amount of between two to twelve months of salary to acquire the Company’s shares at full market price. The shares are then matched with free shares at a certain ratio vested over three years.

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

SHARE INCENTIVE SCHEME

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

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

Details of movements of the Plan during the year ended 31 August 2016 are as follows:

Participants	Date of grant	Number of RSUs									
		Granted	As at 1 September 2015	Granted during the year	Forfeited during the year	Vested during the year	As at 31 August 2016	To be vested on 20 June/29 June/18 August/20 November (As at 31 August 2016)			
								2016	2017	2018	2019
Mr. William Chu Kwong YEUNG*	29 June 2015	238,608	238,608	–	–	59,652	178,956	–	59,652	119,304	–
Mr. Ni Quiaque LAI*	29 June 2015	158,132	158,132	–	–	39,533	118,599	–	39,533	79,066	–
Other Participants	29 June 2015	2,326,246	2,318,415	–	133,567	553,058	1,631,790	–	543,818	1,087,972	–
Other Participants	18 August 2015	273,612	273,612	–	–	68,386	205,226	–	68,386	136,840	–
Other Participants	20 November 2015	158,567	–	158,567	135,776	–	22,791	5,696	5,696	11,399	–
Mr. William Chu Kwong YEUNG*	20 June 2016	194,556	–	194,556	–	–	194,556	–	48,639	48,639	97,278
Mr. Ni Quiaque LAI*	20 June 2016	134,241	–	134,241	–	–	134,241	–	33,560	33,560	67,121
Other Participants	20 June 2016	1,752,685	–	1,752,685	3,581	–	1,749,104	–	437,220	437,220	874,664
Total		5,236,647	2,988,767	2,240,049	272,924	720,629	4,235,263	5,696	1,236,504	1,954,000	1,039,063

* *Director of the Company*

ANNUAL GENERAL MEETING

2016 annual general meeting of the Company (the “2016 AGM”) will be held on Thursday, 22 December 2016 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 2016 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 4 January 2017. Subject to the approval by the Shareholders at the 2016 AGM, the proposed final dividend is expected to be paid in cash on or about Thursday, 12 January 2017.

The dividend policy of the Company 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 financial year, after adjusting for potential debt repayment, if required.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 20 December 2016 to Thursday, 22 December 2016, 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, 19 December 2016 in order to establish the identity of the Shareholders who are entitled to attend and vote at the 2016 AGM.

The register of members of the Company will be closed from Friday, 30 December 2016 to Wednesday, 4 January 2017, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 29 December 2016 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

During the year ended 31 August 2016, 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 2016, 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 2016 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 2016 except for the following deviation:

Code Provision A.5.1 of the CG Code provides that the Nomination Committee should be chaired by the Chairman of the Board or an Independent Non-executive Director. However, the Nomination Committee of the Company is chaired by Mr. William Chu Kwong YEUNG ("Mr. Yeung"), an Executive Director and Chief Executive Officer of the Company. By considering that each Independent Non-executive Director of the Company has been appointed as the Chairman of the Board, Audit Committee and Remuneration Committee respectively, the Board appointed Mr. Yeung as the Chairman of the Nomination Committee to make sure that each Director, especially the Independent Non-executive Directors could dedicate sufficient time to perform his role. Since Mr. Yeung is involved in the day-to-day management of the Company and can provide valuable insight on the suitability of a proposed Director, the Board considers that he is capable of assuming the responsibility of the Chairman of Nomination Committee by leading the process of identifying suitable candidates and making recommendations to the Board. As at the date of this Announcement, the Nomination Committee comprises a majority of Independent Non-executive Directors, which ensures a balance of power and representation of Independent Non-executive Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “Model Code”) set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by Directors. Having made specific enquiries with all Directors, they confirmed that they complied with the Model Code throughout the year ended 31 August 2016.

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 2016 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, 9 November 2016

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

Executive Directors

Mr. William Chu Kwong YEUNG
Mr. Ni Quiaque LAI

Independent Non-executive Directors

Mr. Bradley Jay HORWITZ (*Chairman*)
Mr. Stanley CHOW
Mr. Quinn Yee Kwan LAW, SBS, JP

Non-executive Director

Ms. Deborah Keiko ORIDA

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

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2016

		Year ended	
		31 August	31 August
		2016	2015
	<i>Note</i>	HK\$'000	HK\$'000
Revenue	<i>4</i>	2,784,007	2,341,113
Other net income	<i>5(a)</i>	16,260	16,772
Network costs and costs of sales		(451,097)	(305,930)
Other operating expenses		(1,872,525)	(1,601,975)
Finance costs	<i>5(c)</i>	(141,891)	(260,023)
Share of losses of associates		(15)	–
Share of losses of joint ventures		(185)	(107)
Profit before taxation	<i>5</i>	334,554	189,850
Income tax	<i>6</i>	(89,875)	(85,582)
Profit for the year attributable to equity shareholders of the Company		<u>244,679</u>	<u>104,268</u>
Earnings per share			
Basic	<i>7</i>	<u>24.5 cents</u>	<u>10.4 cents</u>
Diluted	<i>7</i>	<u>24.4 cents</u>	<u>10.4 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2016

	Year ended	
	31 August	31 August
	2016	2015
	HK\$'000	HK\$'000
Profit for the year	244,679	104,268
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	<u>(4,847)</u>	<u>(4,299)</u>
Total comprehensive income for the year attributable to equity shareholders of the Company	<u>239,832</u>	<u>99,969</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2016

		At 31 August 2016 HK\$'000	At 31 August 2015 HK\$'000
	<i>Note</i>		
Non-current assets			
Goodwill		1,771,969	1,594,110
Intangible assets		1,550,209	1,330,501
Property, plant and equipment		2,419,890	1,969,803
Interest in associates		7,473	–
Interest in joint ventures		9,708	9,893
Other non-current assets		19,618	19,503
		5,778,867	4,923,810
Current assets			
Inventories		50,541	14,373
Trade receivables	<i>10</i>	148,064	81,685
Other receivables, deposits and prepayments		271,560	201,910
Amount due from a joint venture		761	329
Cash and cash equivalents		354,955	328,950
		825,881	627,247
Current liabilities			
Trade payables	<i>11</i>	107,550	6,561
Other payables and accrued charges – current portion		448,757	217,394
Deposits received		54,454	33,385
Deferred services revenue – current portion		50,672	55,168
Obligations under granting of rights – current portion		9,024	9,024
Amount due to the former substantial shareholder		–	33,372
Amount due to an associate		2,165	–
Amounts due to joint ventures		10,000	10,000
Contingent consideration – current portion		18,091	2,457
Tax payable		125,073	121,222
		825,786	488,583
Net current assets		95	138,664
Total assets less current liabilities		5,778,962	5,062,474

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 AUGUST 2016

	At 31 August 2016 HK\$'000	At 31 August 2015 HK\$'000
Non-current liabilities		
Other payables and accrued charges – long-term portion	99,008	13,413
Deferred services revenue – long-term portion	55,923	13,844
Obligations under granting of rights – long-term portion	42,867	51,891
Deferred tax liabilities	450,980	438,916
Contingent consideration – long-term portion	27,885	–
Provision for reinstatement costs	17,644	11,334
Bank loans	3,721,297	3,018,889
	4,415,604	3,548,287
NET ASSETS	1,363,358	1,514,187
CAPITAL AND RESERVES		
Share capital	101	101
Reserves	1,363,257	1,514,086
TOTAL EQUITY	1,363,358	1,514,187

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 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 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.

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 certain amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. None of these developments have a significant impact on the Group’s financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

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

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

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

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

4 REVENUE

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

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

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

	Year ended	
	31 August	31 August
	2016	2015
	HK\$'000	HK\$'000
Residential revenue	1,814,940	1,756,511
Enterprise revenue	810,831	475,738
Product revenue	158,236	108,864
	2,784,007	2,341,113

5 PROFIT BEFORE TAXATION

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

	Year ended	
	31 August	31 August
	2016	2015
	HK\$'000	HK\$'000
(a) Other net income		
Interest income	(922)	(2,794)
Net foreign exchange (gain)/loss	(3,538)	576
Amortisation of obligations under granting of rights	(9,024)	(9,024)
Change in fair value of contingent consideration	–	(2,923)
Other income	(2,776)	(2,607)
	<u>(16,260)</u>	<u>(16,772)</u>
(b) Talent costs		
Salaries, wages and other benefits	773,302	636,045
Contributions to defined contribution retirement plan	51,999	45,662
Equity-settled share-based payment expenses	11,605	1,531
Cash-settled share-based payment expenses	588	14
	<u>837,494</u>	<u>683,252</u>
Less: Talent costs capitalised as property, plant and equipment	(27,578)	(25,188)
Talent costs included in advertising and marketing expenses	(294,502)	(253,622)
	<u>515,414</u>	<u>404,442</u>
Talent costs include all compensation and benefits paid to and accrued for all individuals employed by the Group, including directors.		
(c) Finance costs		
Interest on bank loan	100,207	57,421
Interest on interest-rate swap, net	25,764	14,529
Interest on senior notes	–	66,826
Fair value loss on interest-rate swap	15,920	13,413
Loss on extinguishment of senior notes	–	96,234
Originating fee for banking facility expired	–	11,600
	<u>141,891</u>	<u>260,023</u>

5 PROFIT BEFORE TAXATION (CONTINUED)

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

	Year ended	
	31 August	31 August
	2016	2015
	HK\$'000	HK\$'000
(d) Other items		
Advertising and marketing expenses	481,881	399,215
Depreciation	383,863	365,513
Loss/(gain) on disposal of property, plant and equipment, net	520	(323)
Impairment losses on trade receivables	16,862	18,838
Amortisation of intangible assets	122,564	110,167
Operating lease charges in respect of land and buildings: minimum lease payments	42,335	30,018
Operating lease charges in respect of telecommunications facilities and computer equipment: minimum lease payments	175,028	122,796
Auditor's remuneration	7,280	2,000
Research and development costs	16,902	19,970
Cost of inventories	105,876	105,366
Transaction costs in connection with business combination	27,243	–
Listing expenses	–	55,863
	=====	=====

6 INCOME TAX

	Year ended	
	31 August	31 August
	2016	2015
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax	105,777	100,915
Current tax – Outside Hong Kong	4,142	3,648
Deferred tax	(20,044)	(18,981)
	=====	=====
	89,875	85,582

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 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% (2015: 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 HK\$244,679,000 (2015: HK\$104,268,000) and the weighted average number of ordinary shares in issue less shares held for the Co-Ownership Plan II, of 1,000,114,000 ordinary shares (2015: 1,000,000,000 ordinary shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$244,679,000 (2015: HK\$104,268,000) 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	31 August
	2016	2015
	'000	'000
Weighted average number of ordinary shares less shares held for the Co-Ownership Plan II	1,000,114	1,000,000
Effect of the Co-Ownership Plan II	2,931	1,084
Weighted average number of ordinary shares (diluted)	1,003,045	1,001,084

8 BUSINESS COMBINATION

On 18 February 2016, HKBN Group Limited ("HKBNGL") (as the purchaser), the Company (as the purchaser's guarantor), New World Telephone Holdings Limited ("NWTHL") (as the seller) and New World Development Company Limited ("NWD") (as the seller's guarantor) entered into a conditional sale and purchase agreement, pursuant to which, among other things, the Group could purchase the entire issued share capital of Concord Ideas Ltd. ("Concord") and Simple Click Investments Limited ("Simple Click") and their respective wholly-owned subsidiaries. Concord and its subsidiaries primarily engage in the provision of telecommunication services in Hong Kong while Simple Click and its subsidiaries primarily engage in the provision of online marketing solutions in Hong Kong.

The condition precedent set out in the conditional sales and purchase agreement described above had been fulfilled and the acquisition was completed on 31 March 2016 (the "Acquisition").

The total consideration for acquiring entire equity interests in Concord and Simple Click amounting to HK\$723,671,000, comprised of cash and contingent consideration relating to cash rebates to NWTHL for services provided by the Group to NWD and Chow Tai Fook Enterprises Limited and their subsidiaries and related parties based on 50% of settled invoices up to HK\$50,000,000 in aggregate.

8 BUSINESS COMBINATION (CONTINUED)

The Acquisition had the following effect on the Group's assets and liabilities on 31 March 2016, the completion date of the Acquisition:

	<i>HK\$'000</i>
Intangible assets	164,954
Property, plant and equipment	425,231
Other non-current assets	1,090
Trade receivables	66,816
Other receivables, deposits and prepayments	35,382
Cash and cash equivalents	28,537
Trade payables	(48,449)
Other payables, accrued charges, deposits received and deferred services revenue	(114,705)
Deferred tax liabilities	(32,465)
Fair value of net assets acquired	526,391
Goodwill	197,280
Total consideration	723,671
Cash consideration	675,671
Contingent consideration	48,000
Total consideration	723,671
Cash consideration paid	675,671
Cash and cash equivalents acquired	(28,537)
Net cash outflow in respect of the Acquisition during the year ended 31 August 2016	647,134

The revenue and loss after taxation of HK\$252,330,000 and HK\$18,496,000 respectively included in the consolidated income statement were contributed by Concord and Simple Click from the date of acquisition to 31 August 2016.

No separate sets of financial information for Concord and Simple Click were prepared for the period from 1 September 2015 to the date of the Acquisition. As a result, it is impracticable for the Group to disclose the amounts of revenue and profit or loss after taxation of Concord and Simple Click as if the acquisition date for the business combination that occurred during the year had been as of 1 September 2015.

9 DISPOSAL OF INTEREST IN SUBSIDIARIES

On 6 July 2016, the Group disposed of 51% equity interest in Simple Click Investments Limited together with its subsidiaries (collectively “Simple Click Group”) to a group of employees of Simple Click Group, at a total consideration of HK\$7,793,000 realising a net loss on disposal of HK\$1,604,000. Simple Click Group primarily engages in the provision of online marketing solutions in Hong Kong.

The disposal of 51% equity interest in Simple Click Group had the following effect on the Group’s assets and liabilities:

	<i>HK\$’000</i>
Goodwill	19,421
Intangible assets	2,160
Property, plant and equipment	526
Trade receivables	25,318
Other receivables, deposits and prepayments	5,614
Cash and cash equivalents	5,170
Trade payables	(245)
Other payables, accrued charges, deposits received and deferred services revenue	(40,722)
Deferred tax liabilities	(357)
Net assets	16,885
Total consideration	7,793
Less: consideration receivables	(3,672)
Consideration received, satisfied in cash	4,121
Cash and cash equivalents disposed of	(5,170)
Net cash outflow in respect of the disposal of interests in subsidiaries	(1,049)

Upon the completion of the disposal of 51% equity interest in Simple Click Group, the Group’s 49% interest retained in Simple Click Group is recognised at fair value and the amount is regarded as the cost on initial recognition of investment in associates.

10 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 2016 <i>HK\$’000</i>	At 31 August 2015 <i>HK\$’000</i>
Within 30 days	103,144	60,383
31 to 60 days	26,825	14,542
61 to 90 days	10,419	4,619
Over 90 days	7,676	2,141
	148,064	81,685

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.

11 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 2016 HK\$'000	At 31 August 2015 HK\$'000
Within 30 days	30,306	2,537
31 to 60 days	14,019	12
61 to 90 days	17,472	11
Over 90 days	45,753	4,001
	<u>107,550</u>	<u>6,561</u>

12 DIVIDENDS

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

	Year ended 31 August 2016 HK\$'000	31 August 2015 HK\$'000
Interim dividend declared and paid of 20 HK cents per ordinary share (2015: Nil HK cents per ordinary share)	201,133	–
Final dividend proposed after the end of the reporting period of 20 HK cents per ordinary share (2015: 20 HK cents per ordinary share)	<u>201,133</u>	<u>201,133</u>
	<u>402,266</u>	<u>201,133</u>

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 2016 HK\$'000	31 August 2015 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 20 HK cents per ordinary share (2015: Nil HK cents per ordinary share)	<u>201,133</u>	<u>–</u>