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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

MAJOR TRANSACTION
ACQUISITION OF THE TELECOMMUNICATIONS AND ONLINE
MARKETING SOLUTIONS BUSINESS OWNED BY NEW WORLD
TELEPHONE HOLDINGS LIMITED THROUGH THE ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF
CONCORD IDEAS LTD. AND SIMPLE CLICK INVESTMENTS LIMITED

THE ACQUISITION

On 18 February 2016 (before trading hours), the Company (as purchaser's guarantor), HKBNGL (as purchaser), NWD (as seller's guarantor) and NWTHL (as seller) entered into a Share Purchase Agreement, pursuant to which, among other things, HKBNGL has conditionally agreed to purchase, and NWTHL has conditionally agreed to sell, the entire equity interest in the Target Companies for a cash consideration calculated on a cash-free, debt-free basis, of HK\$650 million (subject to certain closing and post-closing adjustments). In addition, HKBNGL and NWTHL will enter into a rebate agreement upon Closing whereby HKBNGL will provide cash rebates for services provided by the Group, the Target Companies and their subsidiaries to the Customer Group based on 50% of settled invoices up to HK\$50 million in aggregate.

NWD has agreed to guarantee to HKBNGL the proper and punctual performance by NWTHL of its obligations under the Share Purchase Agreement. The Company has agreed to guarantee to NWTHL the proper and punctual performance by HKBNGL of its obligations under the Share Purchase Agreement.

The Target Companies and their subsidiaries principally engage in the provision in Hong Kong of fixed line and broadband telecommunications services and online marketing solutions services.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition and the entering into the Share Purchase Agreement will constitute a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirement.

The EGM will be convened to consider and, if thought fit, approve the Acquisition. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any material interest in the Acquisition and therefore no Shareholder is required to abstain from voting on the resolutions to be proposed at the EGM.

Each of Canada Pension Plan Investment Board, Mr. William Chu Kwong Yeung and Mr. Ni Quiaque Lai, who, as at the date of this announcement, held 182,405,000 shares, 25,642,544 shares and 32,022,544 shares in the Company respectively, representing approximately 18.14%, 2.55% and 3.18% of the Company's issued share capital respectively, has provided a written irrevocable undertaking to the Company and NWTNL to vote all the shares in the Company held by each of them respectively in favour of the ordinary resolution of Shareholders to be proposed to approve the Acquisition at the EGM.

It is anticipated that a circular containing, among other things, further information in relation to the Acquisition, a notice convening the EGM and other information required by the Listing Rules will be despatched to Shareholders on or before 8 March 2016.

Shareholders should note that Closing of the Acquisition is subject to approval of the Shareholders. Accordingly, there is no assurance that the Acquisition will be completed. Shareholders and potential investors should, accordingly, exercise caution when dealing in the shares of the Company.

INTRODUCTION

On 18 February 2016 (before trading hours), the Company (as purchaser's guarantor), HKBNGL (as purchaser), NWD (as seller's guarantor) and NWTNL (as seller) entered into a Share Purchase Agreement, pursuant to which, among other things, HKBNGL has conditionally agreed to purchase, and NWTNL has conditionally agreed to sell, the entire issued share capital in the Target Companies for a cash consideration calculated on a cash-free, debt-free basis, of HK\$650 million (subject to certain closing and post-closing adjustments). In addition, HKBNGL and NWTNL will enter into a rebate agreement upon Closing whereby HKBNGL will provide cash rebates for services provided by the Group, the Target Companies and their subsidiaries to the Customer Group, based on 50% of settled invoices up to HK\$50 million in aggregate.

PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT

Date

18 February 2016

Parties

- (1) NWTHL, as seller
- (2) NWD, as guarantor of NWTHL
- (3) HKBNGL, as purchaser
- (4) the Company, as guarantor of HKBNGL

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, NWTHL and NWD and their respective ultimate beneficial owners are third parties independent of the Company and are not its connected persons as defined under the Listing Rules.

Shares to be acquired

Pursuant to the Share Purchase Agreement, HKBNGL will acquire the entire issued share capital in the Target Companies from NWTHL on Closing. Upon Closing, the Target Companies will become direct wholly-owned subsidiaries of HKBNGL.

Consideration

The initial purchase price calculated on a cash-free, debt-free basis, for the entire issued share capital in the Target Companies payable by HKBNGL to NWTHL on Closing is HK\$650 million, subject to the following adjustments:

- (a) subtracting the external debt; and
- (b) adding the cash and cash equivalents;

the amounts of which will be estimated as at Closing in relation to each of the relevant Target Company and its subsidiaries.

As at 30 September 2015, the external debt and cash and cash equivalents of the Target Companies and their subsidiaries as shown in the unaudited combined management accounts are nil and HK\$20.1 million, respectively.

Within 45 days after Closing, NWTHL shall deliver a closing statement to HKBNGL by reference to which adjustments will be made to the initial purchase price in respect of the actual amounts of items described in (a) and (b) above in relation to the Target Companies and their subsidiaries as at Closing, and the difference between the actual amounts of working capital of the Target Companies and their subsidiaries as at Closing and the target working capital of the Target Companies and their subsidiaries as agreed by the parties.

The adjustment amount may be a positive number (which would require a payment of the adjustment amount to be made by HKBNGL to NWTHL) or a negative number (which would require a payment of the adjustment amount to be made by NWTHL to HKBNGL), the sums which each are respectively obliged to pay shall be aggregated and netted off against each other, and be payable within five Business Days after the closing statement is agreed.

In addition, HKBNGL and NWTHL will enter into a rebate agreement upon Closing whereby HKBNGL will provide cash rebates to NWTHL equal to 50% of all amounts paid by the Customer Group in satisfaction of invoices rendered for services provided by the Group, the Target Companies and their respective subsidiaries in the period of four years following Closing, up to a maximum total rebate of HK\$50 million.

The consideration was determined after arm's length negotiations between HKBNGL and NWTHL having regard to, among other things, (i) HKBNGL's view of the value of the assets, business and financial results of the Target Companies; and (ii) the factors set out in the section headed "Reasons for and Benefits of the Acquisition" below.

Condition precedent

Closing shall be conditional only on the approval of the Acquisition and the transactions contemplated thereunder by the Shareholders in accordance with the requirements of Chapter 14 of the Listing Rules. The Company expects that Closing will occur in the first half of 2016.

Cost reimbursement if Shareholders reject the Acquisition

Pursuant to the Share Purchase Agreement, if Shareholders reject the Acquisition in the vote required under Chapter 14 of the Listing Rules, HKBNGL has agreed to pay NWTHL a fixed amount of HK\$10 million as compensation for costs incurred within 15 Business Days after such Shareholders' rejection.

Guarantees

NWD has agreed to guarantee to HKBNGL the proper and punctual performance by NWTHL of its obligations under the Share Purchase Agreement. The Company has agreed to guarantee to NWTHL the proper and punctual performance by HKBNGL of its obligations under the Share Purchase Agreement.

Closing

Closing will take place on the last Business Day of the calendar month in which the condition referred to above has been satisfied (provided that if the period from and including the Unconditional Date to and including the last Business Day of the end of such calendar month is less than five Business Days, Closing shall take place on the last Business Day of the following calendar month).

HKBNGL or NWTHL may terminate the Share Purchase Agreement if (a) Closing does not occur by 31 July 2016 or (b) if Shareholders reject the Acquisition in the vote required under Chapter 14 of the Listing Rules.

Non-competition

NWTHL and NWD have undertaken to HKBNGL and the Company, subject to certain exceptions, that NWTHL and NWD will not (and NWTHL and NWD will procure that no member of the NWTHL Group will) during the period of three years from Closing, carry on or be engaged or interested in or be in any capacity directly or indirectly involved (including by having an economic interest through one or more corporations, trusts, partnerships or other economic entities) in any business which provides fixed line services and/or broadband services to third party customers (not being another member of the NWTHL Group) in Hong Kong.

Properties

Pursuant to the Acquisition, the Company will also become the indirect owners of the Owned Real Properties at Closing. In particular, New World Telecommunications Limited, a wholly-owned subsidiary of Concord, owns the Cornell Centre Property located at 50 Wing Tai Road, Chai Wan with gross floor area of approximately 12,000 square feet and uses it as a network hub site. This property was appraised by a third party valuer on behalf of the Company to have an estimated market value of HK\$67 million as at 27 January 2016.

FINANCING

The Acquisition will be financed by a five-year bullet term loan facility of up to HK\$700 million underwritten by JPMorgan Chase Bank, N.A., Hong Kong Branch. The term loan facility is to be paid in full at maturity.

The term loan facility will bear floating interest rate to HIBOR plus a margin. HIBOR is subject to market movements and may increase or decrease in the future. The starting interest margin is 1.85% per annum and will be subject to a margin grid based on applicable net leverage ratio.

The Company's standalone leverage before the HK\$700 million term loan facility on a gross basis and net basis are 3.2x and 2.8x, respectively on the Company's EBITDA in the year ended 31 August 2015.

The Pro Forma leverage after the HK\$700 million term loan facility on a gross basis and net basis are 3.7x and 3.3x, respectively on the sum of the Company's EBITDA in the year ended 31 August 2015 and the Target Business' EBITDA for the twelve months ended 30 September 2015.

INFORMATION ABOUT THE TARGET BUSINESS

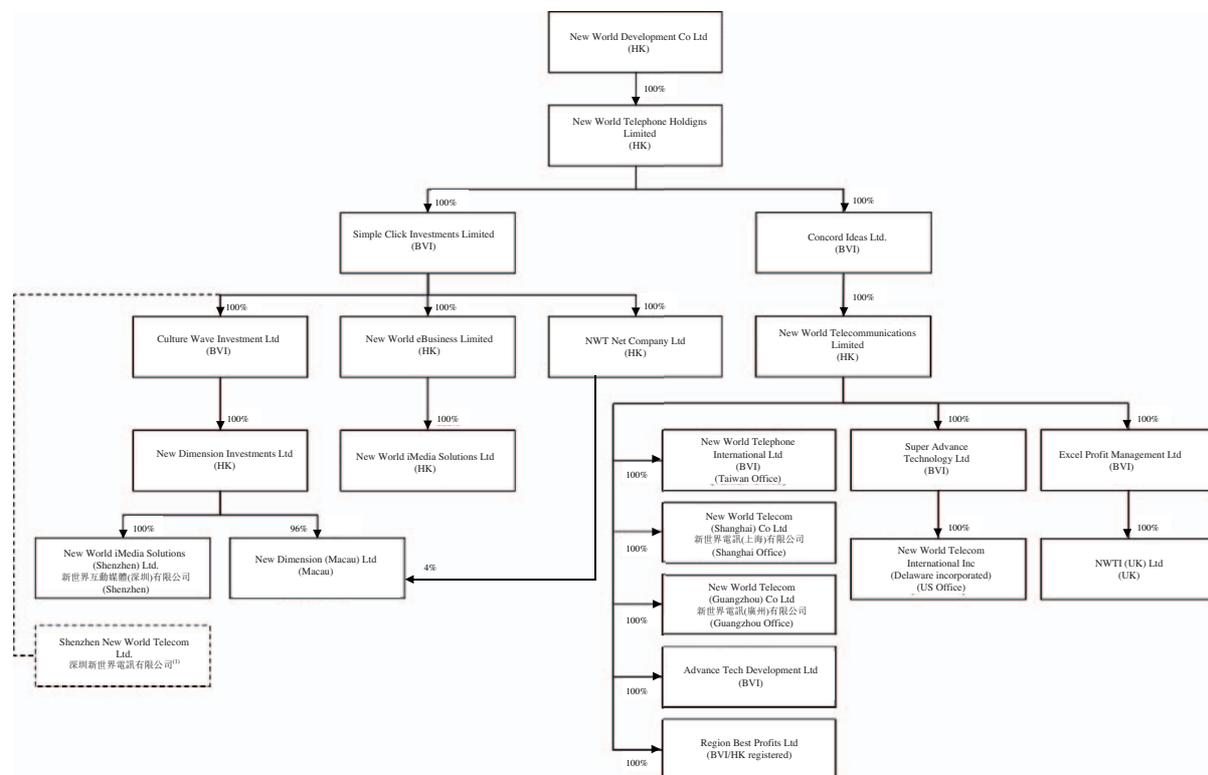
The Target Business is owned by NWTHL and is operated principally through wholly-owned subsidiaries of Concord and Simple Click, New World Telecommunications Limited and New World iMedia Solutions Limited, which are engaged in the provision in Hong Kong of fixed line and broadband telecommunications services and online marketing solutions, respectively.

The Target Business' fixed line and broadband telecommunications services business generated revenue of HK\$613 million for the year ended 30 June 2015. Of this total, the ES segment and the residential segment accounted for 94% and 6% respectively. Focusing mainly on commercial customers, the Target Business is run through a network covering approximately 491 commercial buildings in key commercial districts around Hong Kong. Service offerings include, but are not limited to, international voice services (IDD services), data centre services as well as other fixed line and broadband telecommunications services.

The Target Business' online marketing solutions business generated revenue of HK\$137 million in the year ended 30 June 2015. It is a non-telecom licensed business encompassing search advertising, online display advertising and social media solutions catering to commercial customers seeking to bring their promotional messages to targeted audiences over the internet.

The corporate structure, in simplified form, of NWTHL and the Target Companies and their subsidiaries as at the date of this announcement and immediately before Closing is as follows:

Corporate structure of NWTHL and the Target Companies and their subsidiaries



- (1) Shenzhen New World Telecom Ltd. (深圳市新世界電訊有限公司) is 100% held by Mr. Chen Zhenglóng (陳政隆) on trust for Simple Click.

The revenue, net profit/(loss) before and after taxation and taking into account the extraordinary item, and EBITDA of the Target Business as shown in its unaudited combined management accounts in respect of its financial years ended 30 June 2014 and 2015 and the three months ended 30 September 2015, prepared under NWTHTL's accounting policies and before alignment adjustments for HKBNGL's accounting policies, if any, are set out as follows:

| <i>(in HK\$ million)</i> | For the financial year ended | | For the three months ended |
|--|---|---------------------|---------------------------------------|
| | 30 June 2014 | 30 June 2015 | 30 September 2015 |
| | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenue | 776.9 | 750.1 | 174.4 |
| Net Profit/(Loss) | | | |
| Before taxation | (239.0) | 26.3 | 3.6 |
| After taxation | (239.0) | 26.3 | 3.6 |
| Before taxation (excluding extraordinary item) | 11.0 ⁽¹⁾ | 26.3 | 3.6 |
| After taxation and (excluding extraordinary item) | 11.0 ⁽¹⁾ | 26.3 | 3.6 |
| EBITDA⁽²⁾ | 66.9 | 65.8 | 13.8 |

Note:

1. The extraordinary item is impairment of property, plant and equipment.
2. EBITDA is the earnings before interest, tax, depreciation, amortisation and impairment of property, plant and equipment.

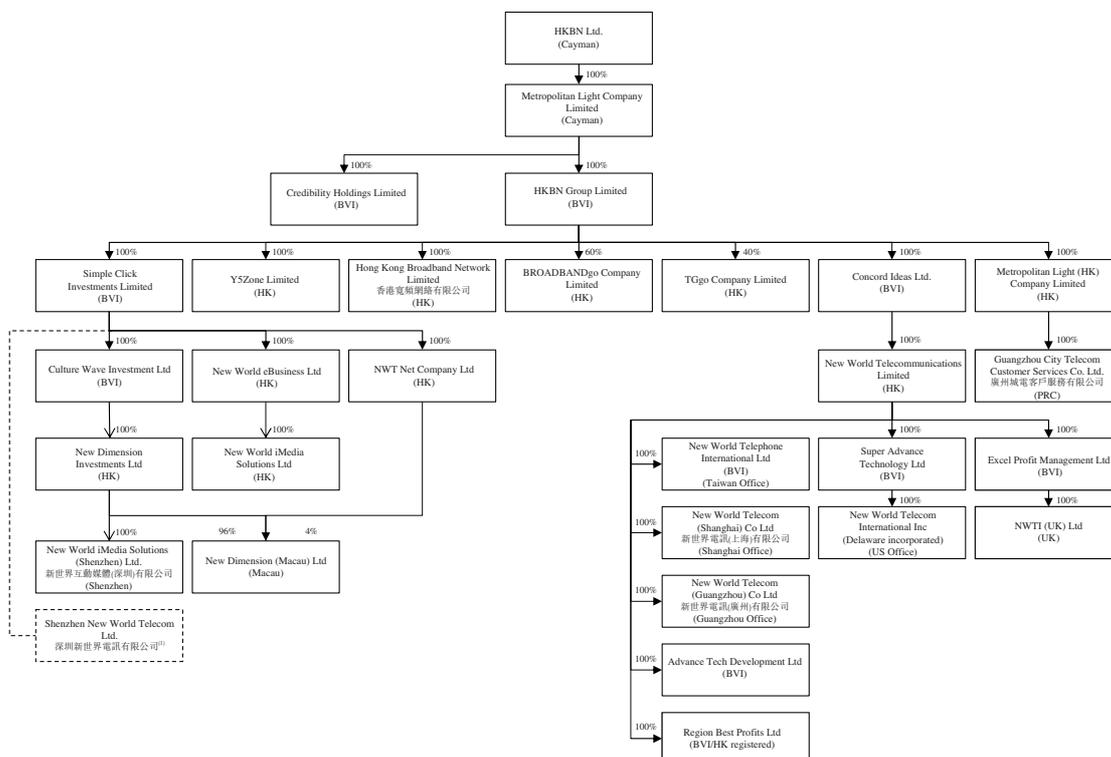
The total assets of the Target Business as shown in its unaudited combined management accounts as at 30 June 2015 and 30 September 2015, prepared under NWTHTL's accounting policies and before alignment adjustments for HKBNGL's accounting policies, if any, were HK\$537.9 million and HK\$537.1 million, respectively.

The cash and cash equivalents of the Target Business as shown in its unaudited combined management accounts as at 30 June 2015 and 30 September 2015, prepared under NWTHTL's accounting policies and before alignment adjustments for HKBNGL's accounting policies, if any, were HK\$41.8 million and HK\$20.1 million, respectively.

Corporate structure on Closing

The corporate structure, in simplified form, of the Group as enlarged by the Acquisition upon completion would be as follows:

Corporate structure of the Group as enlarged by the Acquisition



- (1) Shenzhen New World Telecom Ltd. (深圳市新世界電訊有限公司) is 100% held by Mr. Chen Zhenglong (陳政隆) on trust for Simple Click.

INFORMATION ABOUT THE PARTIES

The Company

The Company and its subsidiaries are principally engaged in the provision of fibre high-speed broadband service (symmetrical 100 Mbps and above) in Hong Kong, offering a diversified portfolio of premier telecom services to both residential and enterprise markets, including broadband and Wi-Fi access, communication, entertainment and Cloud solutions.

HKBNGL

HKBNGL is a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company. HKBNGL is principally engaged in investment holding in Hong Kong.

NWD

NWD and its subsidiaries are principally engaged in property development and investments in the areas of property, infrastructure, hotel operation, department store operation, services, as well as telecommunications and technology.

NWTHL

NWTHL is a company incorporated in Hong Kong and a direct wholly-owned subsidiary of NWD. The NWTHL Group is principally engaged in the telecommunications and online marketing solutions business as well as network infrastructure.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target Business is an ES focused business which is complementary to the Group's existing business. The Acquisition represents an opportunity for the Group to double its scale in the ES market, expand customer base and network coverage, and create synergies from significant efficiencies of the combined scale. Specifically, the Directors expect to realize the following key benefits through the Acquisition:

Strategy: highly complementary combination

The Target Business is an ES focused business with more than 94% of telecommunications services revenue generated from commercial customers. The Target Business is complementary to both the Group's ES business and its residential business. The combination will result in a business with more than HK\$3 billion in total revenue and more than HK\$1 billion in ES revenue¹. The combined scale will strengthen the Group's presence and capabilities in the ES market and create necessary scale to compete effectively with incumbent players of the broader enterprise telecommunications market.

1 Based on the audited accounts of the Group for the year ended 31 August 2015 and the unaudited combined management accounts of the Target Business for the year ended 30 June 2015, respectively.

Customer base: expansion into medium enterprises

The Company's enterprise customer base of 39,000 are primarily small businesses typically with no more than 10 employees and spend approximately HK\$1,010 per month on average for the year ended 31 August 2015, while the Target Business has approximately 5,000 enterprise customers (including carrier customers but excluding IDD customers), primarily comprising medium businesses with an average monthly spending of more than HK\$5,000. The Acquisition represents an attractive opportunity for the Company to expand its customer base into medium enterprises and accelerate its growth in the SME segment.

Network: meaningful increase in reach

The Target Business's network covers approximately 491 commercial buildings and approximately 267 residential buildings, spanning across the main commercial districts in Hong Kong Island, Kowloon and New Territories. The Acquisition will increase the Company's reach in the ES market significantly and expand the network coverage by nearly 200 commercial buildings and as well as provide additional route diversity for the overlapping coverage buildings.

Value creation: synergy opportunities

By integrating into the Company, the Target Business is expected to benefit from the Company's scale and operating track record. The Acquisition will also allow the Target Business to tap on the Company's expertise in network and technology rollout, marketing, product development, human capital building and procurement. The Acquisition is expected to result in significant scale efficiencies and improvement in profitability for the Target Business. In addition, the Company is also expected to achieve considerable capital expenditure savings by absorbing the fibre coverage owned by the Target Business.

The Directors expect to realize synergies in the following specific areas:

- savings in staff cost from optimisation of the combined workforce, especially the support functions of finance, talent management, administration and information technology;
- savings in network cost due to the combined scale and thus enhanced bargaining power with regards to dealing with suppliers;

- savings in office rental expense with optimising and relocation of the offices of the Target Companies to lower cost areas;
- savings in the Company's capital expenditure by utilising the fibre coverage owned by the Target Business;
- revenue synergy from cross-selling of telecommunications products and services offered by the Company and the Target Business to the combined customer base; and
- the Cornell Centre Property, currently used as network hub site is planned to be freed up after network integration, and as such, may be made available for sale.

It is expected that there will be post-acquisition cash operating expenses synergies within the Target Business by 5% to 10% on an annualised basis from the year ending 30 June 2017 onwards.

The capital expenditures of the Target Business for the year ended 30 June 2013, 2014 and 2015 were HK\$124.1 million, HK\$120.3 million and HK\$103.7 million, respectively, mainly driven by the network modernization program which was substantially completed as of 30 June 2015. It is expected that as a result of cessation of overlapping capital expenditure spending, the Acquisition will result in incremental capital expenditure of approximately HK\$30.0 million per year over the Company's existing plan.

In view of the above, the Directors (including all the independent non-executive Directors) are of the view that the Acquisition will create significant value for the Company and, hence, the terms and conditions of the Share Purchase Agreement and the transactions contemplated thereunder (including the Acquisition) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition and the entering into the Share Purchase Agreement will constitute a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements.

The EGM will be convened to consider and, if thought fit, approve the Acquisition. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any material interest in the Acquisition and therefore no Shareholder is required to abstain from voting on the resolutions to be proposed at the EGM.

Each of Canada Pension Plan Investment Board, Mr. William Chu Kwong Yeung and Mr. Ni Quiaque Lai, who, as at the date of this announcement, held 182,405,000 shares, 25,642,544 shares and 32,022,544 shares in the Company respectively, representing approximately 18.14%, 2.55% and 3.18% of the Company's issued share capital respectively, has provided a written irrevocable undertaking to the Company and Nwthl to vote all the shares in the Company held by each of them respectively in favour of the ordinary resolution of Shareholders to be proposed to approve the Acquisition at the EGM.

It is anticipated that a circular containing, among other things, further information in relation to the Acquisition, a notice convening the EGM and other information required by the Listing Rules will be despatched to Shareholders on or before 8 March 2016.

GENERAL

Shareholders should note that Closing of the Acquisition is subject to approval of the Shareholders. Accordingly, there is no assurance that the Acquisition will be completed. Shareholders and potential investors should, accordingly, exercise caution when dealing in the shares of the Company.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

| | |
|-----------------------|---|
| “Acquisition” | the proposed acquisition of the entire issued share capital in the Target Companies from Nwthl pursuant to the Share Purchase Agreement |
| “Board” | the board of directors of the Company |
| “Business Day” | a day (other than a Saturday or Sunday or public holiday in Hong Kong or the British Virgin Islands, or any day on which a tropical cyclone warning no.8 or above or a “black” rain warning signal is hoisted in Hong Kong at any time between 9.00 am and 5.00 pm) on which banks are open in Hong Kong and the British Virgin Islands for general commercial business |
| “Closing” | completion of the Acquisition in accordance with the provisions of the Share Purchase Agreement |

| | |
|----------------------------------|---|
| “Closing Date” | the date on which Closing occurs |
| “Company” | HKBN Ltd. (香港寬頻有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1310) |
| “Concord” | Concord Ideas Ltd., a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of NWTHL |
| “Cornell Centre Property” | units 1, 2, and 3, 2/F and Unit 3 and Flat Roof, 3/F, Cornell Centre, 50 Wing Tai Road, Chai Wan |
| “Customer Group” | NWD and Chow Tai Fook Enterprises Limited (or in each case any successor entities thereof), in each case together with their respective subsidiaries and related parties (within the meaning of Hong Kong Financial Reporting Standard 24 (<i>Related Party Disclosures</i>)) from time to time |
| “Directors” | the directors of the Company |
| “EGM” | the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Share Purchase Agreement and the transactions contemplated thereunder (including the Acquisition) |
| “ES” | Enterprise Solutions |
| “Group” | the Company and its subsidiaries |
| “HIBOR” | Hong Kong Inter-bank Offered Rate |
| “HKBNGL” | HKBN Group Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company |

| | |
|-----------------------------------|---|
| “HK\$” | Hong Kong dollar(s), the lawful currency of Hong Kong Special Administrative Region of the People’s Republic of China |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “NWD” | New World Development Company Limited (新世界發展有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 17) and the direct holding company of NWTHL |
| “NWTHL” | New World Telephone Holdings Limited (新世界電話控股有限公司), a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of NWD |
| “NWTHL Group” | NWTHL and its affiliates (including its subsidiaries, its parent companies and any subsidiaries of its parent companies) from time to time (including, for the avoidance of doubt, New B Innovation Limited), but excluding the Target Companies and their subsidiaries |
| “Owned Real Properties” | the Cornell Centre Property and 3/F, Telephone Exchange Building at Area 12, Tung Chung Town Centre (Tung Chung Town Lot No. 8) |
| “Shareholder(s)” | holders of shares in the Company |
| “Share Purchase Agreement” | the share purchase agreement entered into on 18 February 2016 among the Company, HKBNGL, NWD and NWTHL in relation to the Acquisition |
| “Simple Click” | Simple Click Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of NWTHL |
| “SME” | small and medium enterprise |

| | |
|-----------------------------|--|
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Target Business” | the provision in Hong Kong of fixed line and broadband telecommunications services and online marketing solutions owned by NWTHL |
| “Target Companies” | Concord and Simple Click |
| “Unconditional Date” | the date on which the condition precedent is fulfilled |

By Order of the Board
HKBN Ltd.
Ni Quiaque Lai
Executive Director

Hong Kong, 18 February 2016

As at the date of this announcement, the Board 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, Ms. Deborah Keiko ORIDA as non-executive Director and Mr. Stanley CHOW and Mr. Quinn Yee Kwan LAW, SBS, JP as independent non-executive Directors.

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