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If you have sold or transferred all your shares in HKBN Ltd., you should at once hand this circular and the relevant proxy forms and reply slips to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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

A letter from the Board (as defined herein) is set out on pages 5 to 18 of this circular.

A notice convening an EGM of the Company to be held at Awesome Space, 14th Floor, Trans Asia Centre, 18 Kin Hong Street, Kwai Chung, New Territories, Hong Kong on Wednesday, 16 March 2016 at 10:00 a.m. is set out on pages 103 to 104 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

1 March 2016

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DEFINITIONS

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

“79 Locked-up Co-Owners”	has the same meaning as defined in the Prospectus
“Acquisition”	the proposed acquisition of the entire issued share capital in the Target Companies from NWTHL pursuant to the Share Purchase Agreement
“Announcement”	the announcement dated 18 February 2016 issued by the Company in relation to the Acquisition
“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
“BVI”	the British Virgin Islands
“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
“Co-Ownership Plan II”	has the same meaning as defined in the Prospectus
“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

DEFINITIONS

“EGM”	an extraordinary general meeting of the Company to be held on Wednesday, 16 March 2016 at 10:00 a.m. at Awesome Space, 14th Floor, Trans Asia Centre, 18 Kin Hong Street, Kwai Chung, New Territories, Hong Kong convened by the notice of extraordinary general meeting set out on pages 103 to 104 of this circular (or any adjournment thereof)
“Enlarged Group”	the Group as enlarged by 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
“Hong Kong Offer Shares”	has the same meaning as defined in the Prospectus
“Hong Kong Public Offering”	has the same meaning as defined in the Prospectus
“Hong Kong Underwriters”	the CLSA Limited, Goldman Sachs (Asia) L.L.C., J.P. Morgan Securities (Asia Pacific) Limited, The Hongkong and Shanghai Banking Corporation Limited and UBS AG, Hong Kong Branch
“International Offering”	has the same meaning as defined in the Prospectus
“International Offer Shares”	has the same meaning as defined in the Prospectus
“Joint Bookrunners”	CLSA Limited, Goldman Sachs (Asia) L.L.C., J.P. Morgan Securities (Asia Pacific) Limited (in relation to the Hong Kong Public Offering), J.P. Morgan Securities plc (in relation to the International Offering), The Hongkong and Shanghai Banking Corporation Limited and UBS AG, Hong Kong Branch
“Joint Global Coordinators”	Goldman Sachs (Asia) L.L.C., J.P. Morgan Securities (Asia Pacific) Limited and UBS AG, Hong Kong Branch

DEFINITIONS

“Joint Sponsors”	Goldman Sachs (Asia) L.L.C., J.P. Morgan Securities (Far East) Limited and UBS Securities Hong Kong Limited
“Latest Practicable Date”	24 February 2016, being the latest practicable date prior to the publication of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MLGHL”	Metropolitan Light Group Holdings Limited
“MLHL”	Metropolitan Light Holdings Limited
“MLHL Shareholders”	MLGHL, Mr. William Chu Kwong Yeung (楊主光), Mr. Ni Quiaque Lai (黎汝傑), the Nominee, City-Scape Pte. Ltd., AlpInvest Partners Co-Investments 2009 C.V. and AlpInvest Partners Co-Investments 2010 II C.V.
“Nominee”	Top Talents (PTC) Limited
“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
“Offer Price”	has the same meaning as defined in the Prospectus
“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)
“Prospectus”	the prospectus of the Company dated 27 February 2015
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shareholder(s)”	holders of the shares in the Company

DEFINITIONS

“Share Purchase Agreement”	the share purchase agreement entered into on 18 February 2016 between the Company, HKBNGL, NWD and NWTHL in relation to the Acquisition
“Shares”	ordinary shares with a nominal value of HK\$0.0001 each in the share capital of the Company
“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 of the Share Purchase Agreement is fulfilled

LETTER FROM THE BOARD



HKBN Ltd.
香港寬頻有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1310

Board of Directors:

Executive Directors:

Mr. William Chu Kwong YEUNG

Mr. Ni Quiaque LAI

Non-executive Director:

Ms. Deborah Keiko ORIDA

Independent Non-executive Directors:

Mr. Bradley Jay HORWITZ (*Chairman*)

Mr. Stanley CHOW

Mr. Quinn Yee Kwan LAW, SBS, JP

Registered Office:

P.O. Box 309

Ugland House

Grand Cayman KY1-1104

Cayman Islands

***Head office and principal place of business
in Hong Kong:***

12th Floor, Trans Asia Centre

18 Kin Hong Street, Kwai Chung

New Territories

Hong Kong

1 March 2016

To the Shareholders

Dear Sir or Madam,

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

1. INTRODUCTION

The Company refers to its announcement dated 18 February 2016 in relation to the Share Purchase Agreement and the transactions contemplated thereunder (including the Acquisition).

LETTER FROM THE BOARD

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 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 NWTHL will enter into a rebate agreement upon Closing whereby HKBNGL will provide cash rebates to NWTHL 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.

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 purpose of this circular is to provide you with further information on the details of the Share Purchase Agreement and the transactions contemplated thereunder (including the Acquisition) as required under the Listing Rules.

2. 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

LETTER FROM THE BOARD

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 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 Accountant's Report on the Target Business included as Appendix II to this circular 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 on a dollar-to-dollar basis 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.

LETTER FROM THE BOARD

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.

Capitalisation of shareholder debt owed to NWTHL

On or prior to Closing, NWTHL shall procure that the remaining shareholder debt owed by Concord to NWTHL is capitalised in accordance with the inter-company debt arrangement agreed by HKBNGL and NWTHL.

LETTER FROM THE BOARD

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.

3. FINANCING

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

The principal terms of the term loan facility are as follows:

Parties:	(1) HKBNGL, as borrower (2) the Company, HKBNGL, Metropolitan Light Company Limited and Hong Kong Broadband Network Limited, as guarantors (3) JPMorgan Chase Bank, N.A., Hong Kong Branch and other banks (if applicable), as lenders
Loan amount:	HK\$700 million
Tenor:	5 years from the date of drawdown
Repayment:	Repayment of the entire principal loan amount is due at maturity subject to mandatory prepayment triggered by illegality of a lender to perform any of its obligations under the loan documents
Security:	None

LETTER FROM THE BOARD

Interest rate: 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 determined by reference to the net leverage ratio (on a consolidated basis) of the Group post-Acquisition from time to time

The applicable margin grid is as follow:

Net Leverage Ratio	Margin (% p.a.)
Greater than or equal to 4.5:1	2.55
Less than 4.5:1 but greater than or equal to 4:1	2.20
Less than 4:1 but greater than or equal to 3:1	1.85
Less than 3:1 but greater than or equal to 2.5:1	1.65
Less than 2.5:1	1.45

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.

4. 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.

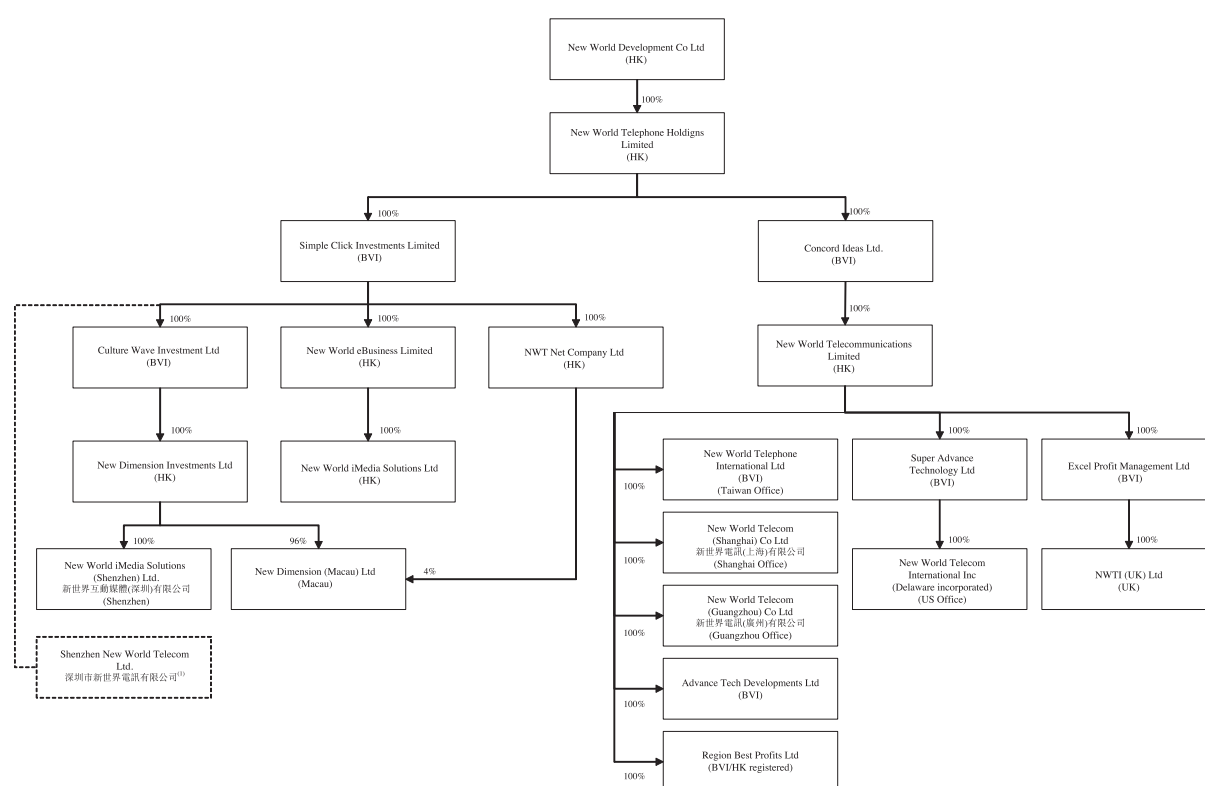
LETTER FROM THE BOARD

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.

Corporate structure prior to Closing

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

Corporate structure of NWTHL and the Target Companies and their subsidiaries



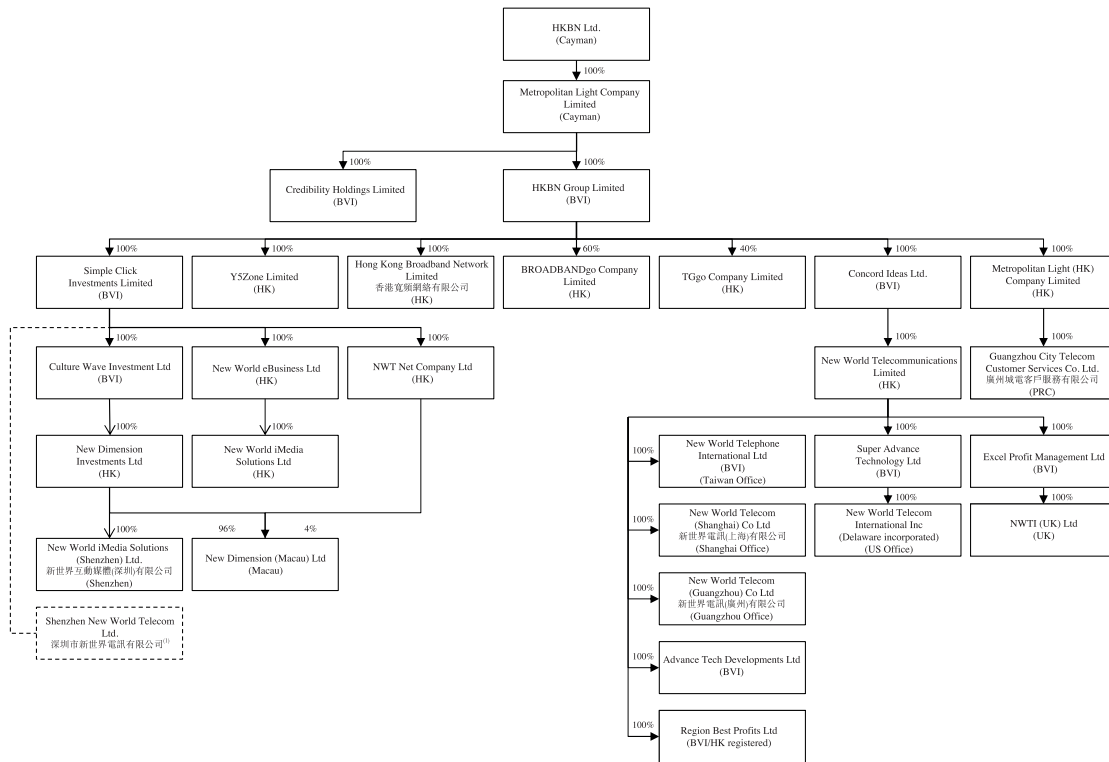
- (1) Shenzhen New World Telecom Ltd. (深圳市新世界電訊有限公司) is 100% held by Mr. Chen Zhenglong (陳政隆) on trust for Simple Click.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

Financial information of the Target Business

Set out below is the selected combined financial information of the Target Business for each of the years ended 30 June 2013, 2014 and 2015 and the three months ended 30 September 2015 as extracted/derived from the Accountant's Report on the Target Business included as Appendix II to this circular.

Results

(in HK\$ million)	For the financial year ended			For the three
	30 June 2013	30 June 2014	30 June 2015	months ended 30 September 2015
Revenue	793.8	776.9	750.1	174.4
Profit/(loss)				
Before taxation	2.4	(239.0)	26.3	3.6
After taxation	2.4	(239.0)	26.3	3.6
Before taxation (excluding extraordinary item)	2.4	11.0 ⁽¹⁾	26.3	3.6
After taxation (excluding extraordinary item)	2.4	11.0 ⁽¹⁾	26.3	3.6
Total comprehensive income/(loss) attributable to the owners of the Target Business	2.4	(239.1)	26.3	3.5
EBITDA ⁽²⁾	51.3	66.9	65.8	13.8

Note:

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

Assets and Liabilities

(in HK\$ million)	As at			
	30 June 2013	30 June 2014	30 June 2015	30 September 2015
Total assets	657.5	519.2	537.9	537.1
Total liabilities	<u>(2,629.6)</u>	<u>(2,730.2)</u>	<u>(2,722.6)</u>	<u>(2,718.3)</u>
Net liabilities	<u>(1,972.1)</u>	<u>(2,211.0)</u>	<u>(2,184.7)</u>	<u>(2,181.2)</u>

LETTER FROM THE BOARD

5. 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.

6. 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 Accountant's Report on the Target Business included as Appendix II to this circular for the year ended 30 June 2015, respectively.

LETTER FROM THE BOARD

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 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

LETTER FROM THE BOARD

- the Cornell Centre Property, currently used as a 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.

7. FINANCIAL EFFECTS OF THE ACQUISITION

Upon the completion of the Acquisition, the Target Companies will become direct wholly-owned subsidiaries of HKBNG. The financial results, assets and liabilities of the Target Companies and their subsidiaries will be consolidated with those of the Group.

Assets and liabilities

As extracted/derived from the annual report of the Company for the year ended 31 August 2015, the audited consolidated total assets and total liabilities of the Group were approximately HK\$5,551.1 million and HK\$4,036.9 million, respectively; and the audited consolidated net assets as at 31 August 2015 were approximately HK\$1,514.2 million.

As set out in Appendix IV to this circular, the unaudited pro forma total assets and total liabilities of the Enlarged Group would increase to approximately HK\$6,427.9 million and HK\$4,944.7 million, respectively; and the unaudited pro forma net asset value of the Enlarged Group would decrease to approximately HK\$1,483.2 million assuming Closing had taken place on 31 August 2015.

Earnings

As set out in the Accountant's Report on the Target Business included as Appendix II to this circular, the revenue and net profit attributable to owners of the Target Business were approximately HK\$750.1 million and HK\$26.3 million for the year 30 June 2015, respectively.

The attention of the Shareholders is drawn to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular.

LETTER FROM THE BOARD

8. 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.

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 has, on the date of the Announcement, provided a written irrevocable undertaking to the Company and NWTHL to vote in respect of 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, in favour of the ordinary resolution of Shareholders to be proposed to approve the Acquisition at the EGM.

9. EGM

As no Shareholder has a material interest in the Share Purchase Agreement different from any other Shareholder, all Shareholders are entitled to vote on the ordinary resolution to approve the Share Purchase Agreement and the transactions contemplated thereunder (including the Acquisition) to be proposed at the EGM.

A notice convening the EGM to be held on Wednesday, 16 March 2016 at 10:00 a.m. at Awesome Space, 14th Floor, Trans Asia Centre, 18 Kin Hong Street, Kwai Chung, New Territories, Hong Kong, is set out on pages 103 to 104 of this circular. At the EGM, the Shareholders will be requested to consider and, if thought fit, pass the ordinary resolution to approve the Share Purchase Agreement and the transactions contemplated thereunder. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Therefore, the resolution put to the vote at the EGM will be taken by way of poll. After the conclusion of the EGM, the poll results will be published on the respective websites of the Stock Exchange and the Company.

A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you are able to attend the EGM (or any adjourned meeting) in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

LETTER FROM THE BOARD

10. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the terms of the Share Purchase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the ordinary resolution to be proposed in relation to the Share Purchase Agreement and the transactions contemplated thereunder at the EGM.

11. 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.

12. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

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

1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE YEARS ENDED 31 AUGUST 2013, 2014 AND 2015

Financial information of the Group for each of the years ended 31 August 2013, 2014 and 2015 is disclosed in Appendix I of the Prospectus and pages 91 to 160 of the Company's annual report for the year ended 31 August 2015 published on 13 November 2015, all of which are available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hkbn.net) and which can be accessed through the hyperlinks below:

Prospectus:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0227/LTN20150227053.pdf>

Company's annual report for the year ended 31 August 2015:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/1113/LTN20151113204.pdf>

2. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the selected consolidated financial information of the Group for the three years ended 31 August 2013, 2014 and 2015, as extracted/derived from the Prospectus and the annual report of the Group for the year ended 31 August 2015.

Key Financials

(in HK\$ million)	For the year ended		
	31 August 2013	31 August 2014	31 August 2015
Revenue	1,949.4	2,131.6	2,341.1
Profit/(Loss) for the year	(139.0)	53.6	104.3
Adjusted Net Profit	201.1	253.9	360.0
EBITDA	740.6	845.3	978.6
EBITDA Margin	38.0%	39.7%	41.8%
Adjusted Free Cash Flow	226.6	310.8	391.6

Assets and Liabilities

(in HK\$ million)	As at		
	31 August 2013	31 August 2014	31 August 2015
Total assets	5,855.3	5,719.4	5,551.1
Total liabilities	(4,265.7)	(4,076.6)	(4,036.9)
Net assets	<u>1,589.6</u>	<u>1,642.8</u>	<u>1,514.2</u>

3. INDEBTEDNESS**The Enlarged Group**

As at the close of business on 31 December 2015, being the most recent practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding bank borrowings carried at amortised cost of approximately HK\$3,024 million. The outstanding bank borrowings are unsecured and cross-guaranteed by the Company, HKBNGL, Metropolitan Light Company Limited and Hong Kong Broadband Network Limited.

As at the close of business on 31 December 2015, the Enlarged Group had contingent liabilities of approximately HK\$4 million in respect of bank guarantees provided to suppliers and utility vendors in lieu of payment of utility deposits.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have, as at 31 December 2015, any mortgages, charges, debentures, debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding borrowings or indebtedness in the nature of borrowings including term loans, bank overdrafts, liabilities under acceptances, acceptance credits, hire purchase and finance lease commitments or other similar indebtedness, or any guarantees or other material contingent liabilities.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or prospects of the Group since 31 August 2015 (being the date to which the latest audited consolidated financial statements of the Group were made up).

5. WORKING CAPITAL

Taking into account the financial resources available to the Enlarged Group, including the internally generated funds and the available committed borrowing facilities, the Directors are of the opinion that in the absence of unforeseeable circumstances, the Enlarged Group has sufficient working capital available for its requirements, that is for at least the next 12 months from the date of this circular.

6. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon Completion, the Target Companies will become direct wholly-owned subsidiaries of HKBNGL. 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.

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 revenue based on the audited accounts of the Group for the year ended 31 August 2015 and the Accountant's Report on the Target Business included as Appendix II to this circular for the year ended 30 June 2015, respectively. The Company's enterprise customer base of 39,000 are primarily small businesses while the Target Business has approximately 5,000 enterprise customers (including carrier customers but excluding IDD customers), primarily comprising medium businesses with a higher average monthly spending. 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. The Acquisition will also significantly increase the breadth and depth of HKBN's reach by adding nearly 200 commercial buildings as well as provides additional route diversity for overlapping coverage buildings.

The Acquisition is expected to result in significant scale efficiencies and improvement in profitability for the Target Business. 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.

In addition, the Company is also expected to achieve considerable capital expenditure savings by absorbing the fibre coverage owned by the Target Business. 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.

Financing expenses in relation to the HK\$700 million term loan facility to fund the Acquisition will be subject to floating interest rate to HIBOR plus a margin. The starting interest margin is 1.85% per annum and will be subject to a margin grid based on applicable net leverage ratio.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

The Directors
HKBN Ltd.

Dear Sirs,

We report on the combined financial information of the telecommunications services and online marketing solutions business (the "Target Business") owned by New World Telephone Holdings Limited ("NWTHL"), which comprises the combined statements of financial position as at 30th June 2013, 2014 and 2015 and 30th September 2015, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2015 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This combined financial information has been prepared by the directors of HKBN Ltd. (the "Company") and is set out in Sections I to III below for inclusion in Appendix II to the circular of the Company dated 1 March 2016 (the "Circular") in connection with the proposed acquisition of the Target Business by the Company through the acquisition of the entire issued share capital of Concord Ideas Ltd. and Simple Click Investments Limited which are the holding companies of the operating subsidiaries.

As at the date of this report, the Target Business is comprised of the entities set out in Note 1 of Section II below. The statutory audited financial statements of the companies comprising the Target Business for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are also set out in Note 1 of Section II below.

The consolidated financial statements of NWTHL, the holding company of the Target Business, for each of the years ended 30th June 2013, 2014 and 2015 were audited by PricewaterhouseCoopers pursuant to separate terms of engagement with NWTHL.

*PricewaterhouseCoopers Ltd., 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

APPENDIX II ACCOUNTANT’S REPORT ON THE TARGET BUSINESS

The directors of NWTHL and the respective companies comprising the Target Business during the Relevant Periods are responsible for the preparation of the respective company’s financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The financial information has been prepared based on the audited consolidated financial statements or, where appropriate, unaudited consolidated financial statements of NWTHL after making such adjustments as appropriate and on the basis as set out in Note 1 of Section II below.

Directors’ Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the combined financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1 of Section II below and HKFRSs and the accounting policies adopted by the Company and its subsidiaries as set out in the annual report of the Company for the year ended 31st August 2015.

Reporting Accountant’s Responsibility

Our responsibility is to express an opinion on the combined financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Opinion

In our opinion, the combined financial information gives, for the purpose of this report, a true and fair view of the combined financial position of the Target Business as at 30th June 2013, 2014 and 2015 and 30th September 2015 and of the combined financial performance and cash flows of the Target Business for the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix II to the Circular which comprises the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statements of cash flow of the Target Business for the three months ended 30th September 2014 and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

APPENDIX II ACCOUNTANT’S REPORT ON THE TARGET BUSINESS

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 1 of Section II below and the accounting policies set out in Note 2 of Section II below and the accounting policies adopted by the Company and its subsidiaries as set out in the annual report of the Company for the year ended 31st August 2015.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 1 of Section II below and the accounting policies set out in Note 2 of Section II below.

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

I. COMBINED FINANCIAL INFORMATION OF THE TARGET BUSINESS

The following is the combined financial information of the Target Business prepared by the directors of the Company as at 1st July 2012, 30th June 2013, 2014 and 2015 and 30th September 2015 and for each of the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2014 and 2015 (the "Combined Financial Information"):

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 1st July 2012 HK\$'000 (Unaudited)	As at 30th June 2013 HK\$'000	As at 30th June 2014 HK\$'000	As at 30th June 2015 HK\$'000	As at 30th September 2015 HK\$'000
	Note					
ASSETS						
Non-current assets						
Property, plant and equipment	5	442,739	519,565	332,846	396,535	395,044
Other receivables, prepayments and deposits	6	<u>13,527</u>	<u>18,569</u>	<u>21,453</u>	<u>2,230</u>	<u>2,323</u>
		<u>456,266</u>	<u>538,134</u>	<u>354,299</u>	<u>398,765</u>	<u>397,367</u>
Current assets						
Trade receivables	6	80,803	61,312	72,181	65,665	79,144
Other receivables, prepayments and deposits	6	28,030	32,965	33,404	29,419	37,536
Amounts due from NWTHL's fellow subsidiaries and related companies	7	7,474	10,132	6,684	2,205	2,918
Cash and cash equivalents	8	<u>9,983</u>	<u>14,998</u>	<u>52,679</u>	<u>41,832</u>	<u>20,149</u>
		<u>126,290</u>	<u>119,407</u>	<u>164,948</u>	<u>139,121</u>	<u>139,747</u>
Total assets		<u>582,556</u>	<u>657,541</u>	<u>519,247</u>	<u>537,886</u>	<u>537,114</u>

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

		As at		As at 30th June	As at 30th	
		1st July			September	
	Note	2012	2013	2014	2015	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)				
COMBINED EQUITY						
Equity attributable to owners of						
The Target Business						
Combined capital	9	1,120,000	1,123,380	1,123,520	1,123,520	1,123,520
Reserves		(3,097,879)	(3,095,467)	(3,334,518)	(3,308,203)	(3,304,671)
Total deficit		(1,977,879)	(1,972,087)	(2,210,998)	(2,184,683)	(2,181,151)
LIABILITIES						
Current liabilities						
Trade payables	10	129,502	84,077	72,497	45,871	57,069
Other payables, accrued charges, deposits received and deferred income	10	104,121	106,755	123,699	129,594	114,089
Amounts due to related parties	11	2,293,732	2,408,635	2,534,049	2,547,104	2,547,107
Other financial obligation	13	33,080	30,161	—	—	—
Total liabilities		2,560,435	2,629,628	2,730,245	2,722,569	2,718,265
Total equity and liabilities		582,556	657,541	519,247	537,886	537,114

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

COMBINED INCOME STATEMENTS

		Year ended 30th June			Three months ended 30th September	
	<i>Note</i>	2013	2014	2015	2014	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		<i>(Unaudited)</i>				
Revenue	14	793,837	776,868	750,093	189,836	174,418
Cost of sales	15	(466,613)	(411,041)	(379,108)	(95,704)	(85,326)
Other income/gains — net	14	12,976	13,803	15,219	4,263	3,346
Selling expenses	15	(18,520)	(22,343)	(26,353)	(5,992)	(5,431)
Administrative and other operating expenses	15	(317,243)	(346,294)	(333,537)	(83,435)	(83,410)
Impairment of property, plant and equipment	15	—	(250,000)	—	—	—
Operating profit/(loss)		4,437	(239,007)	26,314	8,968	3,597
Finance costs	13	(2,041)	—	—	—	—
Profit/(loss) before income tax		2,396	(239,007)	26,314	8,968	3,597
Income tax expense	17	—	—	—	—	—
Profit/(loss) attributable to owners of the Target Business		<u>2,396</u>	<u>(239,007)</u>	<u>26,314</u>	<u>8,968</u>	<u>3,597</u>
Earnings per Share	22	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>	
Profit/(loss) for the year/period	<u>2,396</u>	<u>(239,007)</u>	<u>26,314</u>	<u>8,968</u>	<u>3,597</u>
Other comprehensive income/(loss)					
Item that may be reclassified to profit or loss:					
- Currency translation differences	<u>16</u>	<u>(44)</u>	<u>1</u>	<u>—</u>	<u>(65)</u>
Other comprehensive income/(loss), net of tax	<u>16</u>	<u>(44)</u>	<u>1</u>	<u>—</u>	<u>(65)</u>
Total comprehensive income/(loss) for the year/period attributable to owners of the Target Business	<u>2,412</u>	<u>(239,051)</u>	<u>26,315</u>	<u>8,968</u>	<u>3,532</u>

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Business			
	Combined capital	Currency translation reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1st July 2012	1,120,000	(110)	(3,097,769)	(1,977,879)
Capital contribution from NWLHL	<u>3,380</u>	<u>—</u>	<u>—</u>	<u>3,380</u>
Comprehensive income				
Profit for the year	—	—	2,396	2,396
Other comprehensive income				
Currency translation differences	<u>—</u>	<u>16</u>	<u>—</u>	<u>16</u>
Total comprehensive income	<u>—</u>	<u>16</u>	<u>2,396</u>	<u>2,412</u>
Balance at 30th June 2013 and 1st July 2013	1,123,380	(94)	(3,095,373)	(1,972,087)
Capital contribution from NWLHL	<u>140</u>	<u>—</u>	<u>—</u>	<u>140</u>
Comprehensive income				
Loss for the year	—	—	(239,007)	(239,007)
Other comprehensive income				
Currency translation differences	<u>—</u>	<u>(44)</u>	<u>—</u>	<u>(44)</u>
Total comprehensive income	<u>—</u>	<u>(44)</u>	<u>(239,007)</u>	<u>(239,051)</u>
Balance at 30th June 2014 and 1st July 2014	<u>1,123,520</u>	<u>(138)</u>	<u>(3,334,380)</u>	<u>(2,210,998)</u>
Comprehensive income				
Profit for the year	—	—	26,314	26,314
Other comprehensive income				
Currency translation differences	<u>—</u>	<u>1</u>	<u>—</u>	<u>1</u>
Total comprehensive income	<u>—</u>	<u>1</u>	<u>26,314</u>	<u>26,315</u>

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

	Attributable to owners of the Target Business			
	Combined capital <i>HK\$'000</i>	Currency translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 30th June 2015 and 1st July 2015	<u>1,123,520</u>	<u>(137)</u>	<u>(3,308,066)</u>	<u>(2,184,683)</u>
Comprehensive income				
Profit for the period	—	—	3,597	3,597
Other comprehensive income				
Currency translated differences	<u>—</u>	<u>(65)</u>	<u>—</u>	<u>(65)</u>
Total comprehensive income	<u>—</u>	<u>(65)</u>	<u>3,597</u>	<u>3,532</u>
Balance at 30th September 2015	<u>1,123,520</u>	<u>(202)</u>	<u>(3,304,469)</u>	<u>(2,181,151)</u>
Balance at 1st July 2014	<u>1,123,520</u>	<u>(138)</u>	<u>(3,334,380)</u>	<u>(2,210,998)</u>
Comprehensive income				
Profit for the period	—	—	8,968	8,968
Other comprehensive income				
Currency translation differences	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income	<u>—</u>	<u>—</u>	<u>8,968</u>	<u>8,968</u>
Balance at 30th September 2014 (Unaudited)	<u>1,123,520</u>	<u>(138)</u>	<u>(3,325,412)</u>	<u>(2,202,030)</u>

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

COMBINED STATEMENTS OF CASH FLOWS

		Year ended 30th June			Three months ended 30th September	
	<i>Note</i>	2013	2014	2015	2014	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>(Unaudited)</i>						
Cash flows from operating activities						
Cash generated from/(used in) operations	18	20,053	65,504	60,034	(3,410)	(12,786)
Interest paid		<u>(38)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash generated from/(used in) operating activities		<u>20,015</u>	<u>65,504</u>	<u>60,034</u>	<u>(3,410)</u>	<u>(12,786)</u>
Cash flows from investing activities						
Interest received	14	12	15	16	1	1
Purchase of property, plant and equipment	5	(124,081)	(120,251)	(103,663)	(52,888)	(8,752)
Proceeds from disposal of property, plant and equipment	18	24	2	541	3	—
Changes in other receivables, prepayments and deposits under non-current assets		(5,042)	(2,884)	19,223	16,994	(93)
Advance to NWTHL		<u>—</u>	<u>(3,520)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash used in investing activities		<u>(129,087)</u>	<u>(126,638)</u>	<u>(83,883)</u>	<u>(35,890)</u>	<u>(8,844)</u>
Cash flows from financing activities						
Advance from NWTHL		119,000	129,000	13,000	13,000	—
Repayment of other financial obligation	13	<u>(4,922)</u>	<u>(30,150)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash generated from financing activities		<u>114,078</u>	<u>98,850</u>	<u>13,000</u>	<u>13,000</u>	<u>—</u>

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

	<i>Note</i>	Year ended 30th June			Three months ended 30th September	
		2013	2014	2015	2014	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		<i>(Unaudited)</i>				
Net increase/(decrease) in cash and cash equivalents		5,006	37,716	(10,849)	(26,300)	(21,630)
Cash and cash equivalents at the beginning of the year/period		9,983	14,998	52,679	52,679	41,832
Currency translation differences		<u>9</u>	<u>(35)</u>	<u>2</u>	<u>—</u>	<u>(53)</u>
Cash and cash equivalents at the end of the year/period		<u>14,998</u>	<u>52,679</u>	<u>41,832</u>	<u>26,379</u>	<u>20,149</u>
Analysis of balances of cash and cash equivalents						
Bank balances and cash	8	<u>14,998</u>	<u>52,679</u>	<u>41,832</u>	<u>26,379</u>	<u>20,149</u>

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

II. NOTES TO THE COMBINED FINANCIAL INFORMATION

1. General information and basis of presentation

The Target Business, is principally engaged in the provision of telecommunication services and online marketing solutions. The Target Business is owned by NWTHL. The ultimate holding company of NWTHL is New World Development Company Limited. The ultimate controlling party of the Target Business is New World Development Company Limited.

During the Relevant Periods, NWTHL incurred certain administrative expenses relating to the Target Business. As such transactions and balances reflected in the financial statements of NWTHL exclusively relate to and are an integral part of the Target Business, the financial information for the Relevant Periods includes such transactions and balances on the same basis as those assets and liabilities to be acquired by the Company. The financial information has therefore been presented on a combined basis from the perspective of the Target Business as a whole.

The combined financial information should not be construed as indicative of the financial performance of the Target Business in any future period.

As at the date of this report, the Target Business was comprised of the following entities:

Company name	Country/place and date of incorporation	Registered/Issued and paid-up capital	Attributable equity interest of the Target Business				As at the 30 date of this report	Principal activities/place of operation
			2013	30 June 2014	2015	September 2015		
Directly owned by NWTHL:								
Concord Ideas Ltd ⁽¹⁾	BVI 2 Jan 2002	US\$2 HK\$1,120,000,000	100%	100%	100%	100%	100%	Investment holding, Hong Kong
Simple Click Investments Ltd ⁽¹⁾	BVI 3 Dec 2014	US\$1	N/A	N/A	100%	100%	100%	Investment holding, Hong Kong
Indirectly owned:								
New World Telecommunications Ltd 新世界電訊有限公司 ⁽²⁾	Hong Kong 14 Jan 1992	HK\$10,000,000	100%	100%	100%	100%	100%	Provision of telecommunication services, Hong Kong
NWT Net Company Ltd ⁽⁸⁾	Hong Kong 8 Dec 2005	HK\$2	100%	100%	100%	100%	100%	Inactive
New World eBusiness Ltd ⁽⁷⁾	Hong Kong 16 Apr 2007	HK\$2	100%	100%	100%	100%	100%	Investment holding, Hong Kong

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Company name	Country/place and date of incorporation	Registered/Issued and paid-up capital	Attributable equity interest of the Target Business				As at the 30 date of this report	Principal activities/place of operation
			2013	30 June	2015	30 September		
				2014		2015		
Directly owned by NWTHL:								
New World iMedia Solutions Ltd 新世界互動媒 體有限公司 ⁽²⁾	Hong Kong 8 Aug 2007	HK\$1	100%	100%	100%	100%	100%	Provision of online marketing solutions, Hong Kong
New Dimension Investments Limited 新空間投資有限公司 ⁽²⁾	Hong Kong 23 Apr 2007	HK\$10,000	100%	100%	100%	100%	100%	Investment holding, Hong Kong
New World Telephone International Ltd ⁽³⁾	BVI 28 Aug 1996	US\$1	100%	100%	100%	100%	100%	License holding, Taiwan
Super Advance Technology Ltd ⁽¹⁾	BVI 18 Jul 2001	US\$1	100%	100%	100%	100%	100%	Investment holding, Hong Kong
Region Best Profits Ltd ⁽¹⁾	BVI 28 Feb 2002	US\$1	100%	100%	100%	100%	100%	Inactive
Culture Wave Investment Limited ⁽¹⁾	BVI 28 Feb 2007	US\$1	100%	100%	100%	100%	100%	Investment holding, Hong Kong
Excel Profit Management Ltd ⁽¹⁾	BVI 12 Jul 2001	US\$1	100%	100%	100%	100%	100%	Investment holding, Hong Kong
Advance Tech Developments Ltd ⁽¹⁾	BVI 2 Aug 2001	US\$1	100%	100%	100%	100%	100%	Inactive
New World Telecom International Inc ⁽⁸⁾	Delaware, USA 9 Aug 2001	US\$100	100%	100%	100%	100%	100%	License holding, USA
NWTI (UK) Ltd ⁽⁸⁾	England & Wales 25 Nov 2002	GBP1	100%	100%	100%	100%	100%	License holding, UK
New Dimension (Macau) Ltd 新空間(澳門)有限公司 ⁽¹⁾	Macau 17 Nov 2010	MOP25,000	100%	100%	100%	100%	100%	Inactive
新世界電訊(廣州)有限公司 ⁽⁴⁾	Guangzhou 8 Jul 2003	US\$200,000	100%	100%	100%	100%	100%	Provision of system integration services, PRC
新世界電訊(上海)有限公司 ⁽⁵⁾	Shanghai 3 Apr 2003	US\$300,000	100%	100%	100%	100%	100%	Inactive
新世界互動媒體(深圳)有限公司 ⁽⁶⁾	Shenzhen 22 Jan 2009	HK\$4,000,000	100%	100%	100%	100%	100%	Provision of online marketing solutions, PRC
深圳市新世界電訊有限公司 ⁽⁶⁾	Shenzhen 1 Sept 2008	RMB1,000,000	100%	100%	100%	100%	100%	Telecommunications service, PRC

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

Notes

- (1) No audited financial statements were issued for these subsidiaries as they are not required to issue audited financial statements under the statutory requirements of their place of incorporation.
- (2) The statutory financial statements for each of the years ended 30th June 2013, 2014 and 2015 were audited by PricewaterhouseCoopers Hong Kong.
- (3) The statutory financial statements for each of the years ended 31st December 2013, 2014 and 2015 were audited by Grant Thornton Taiwan.
- (4) This subsidiary had accounting year end date of 31st December 2012, 2013 and 2014 and prepared financial information as at 30th June 2013, 2014 and 2015 for the purpose of the combined financial statements of NWTHL. The statutory financial statements for each of the years ended 31st December 2012, 2013 and 2014 were audited by Guangdong Link Certified Public Accountants co., Ltd..
- (5) This subsidiary had accounting year end date of 31st December 2012, 2013 and 2014 and prepared financial information as at 30th June 2013, 2014 and 2015 for the purpose of the combined financial statements of NWTHL. The statutory financial statements for each of the years ended 31st December 2012, 2013 and 2014 were audited by Shanghai Shangzi Certified Public Accountants, Shanghai Jingshi Certified Public Accountants and Shanghai PD&JS Certified Public Accountants, respectively.
- (6) These subsidiaries had accounting year end date of 31st December 2012, 2013 and 2014 and prepared financial information as at 30th June 2013, 2014 and 2015 for the purpose of the combined financial statements of NWTHL. The statutory financial statements for each of the years ended 31st December 2012, 2013 and 2014 were audited by Shenzhen Hongdaxin Certified Public Accountants.
- (7) No statutory financial statements have been issued for this entity for the years ended 30th June 2013, 2014 and 2015.
- (8) No statutory financial statements have been issued for these subsidiaries as they are inactive. These subsidiaries had accounting year end date of 30th June.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Combined Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Combined Financial Information which are in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA are set out below. The Combined Financial Information has been prepared under the historical cost convention.

The preparation of the Combined Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies as set out below. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the combined financial information, are disclosed in Note 4.

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

The Combined Financial Information contained in this Accountant's Report does not constitute statutory financial statements of any of the entities comprising the Target Business for either of the years ended 30 June 2013, 2014 or 2015 but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

As the entities within the Target Business that are incorporated in Hong Kong are private companies, they are not required to deliver their financial statements to the Registrar of Companies, and have not done so. The auditor has reported on these financial statements for all three years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Companies Ordinance.

2.1.1 *Standards, amendments to standards and interpretations which are not yet effective*

The following new or revised standards, amendments to standards and interpretations are mandatory for future accounting periods which the Target Business has not early adopted:

		Effective for accounting period beginning on or after
HKFRS 14	Regulatory Deferral Accounts	1st January 2016
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations	1st January 2016
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution for Assets between an Investor and its Associate of Joint Venture	1st January 2016
Amendments to HKFRS10, HKFRS12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception	1st January 2016
Amendments to HKAS 1	Disclosure initiative	1st January 2016
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1st January 2016
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants	1st January 2016
Amendments to HKAS 27	Equity Method in Separate Financial Statements	1st January 2016
Annual Improvement Project	Annual Improvements 2012 — 2014 Cycle	1st January 2016
HKFRS 9	Financial Instruments	1st January 2018
HKFRS 15	Revenue from Contracts with Customers	1st January 2018

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The Target Business has already commenced an assessment of the impact of these new or revised standards, amendments to standards and interpretation, certain of which may be relevant to the operations of the Target Business and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the Combined Financial Information. The Target Business is not yet in a position to ascertain their impact on its results of operations and financial position.

2.1.2 *Going concern*

As at 30th September 2015, the current liabilities of the Target Business exceeded its current assets by approximately HK\$2,578,518,000 and there was a deficit of approximately HK\$2,181,151,000.

During the Relevant Periods and for the period ending the earlier of not less than 12 months from the date of this report and the date of completion of the acquisition of the Target Business from Nwthl by the Company, the directors of the ultimate holding company of the Target Business have confirmed their intention to provide continuing financial support to the Target Business for the continuing operations so as to meet its liabilities as and when they fall due and carry on their businesses without significant curtailment of operations.

As at 30th September 2015, the Target Business had net current liabilities of HK\$2,578,518,000. This is primarily due to amounts due to Nwthl by the Target Business of HK\$2,545,516,000. Prior to completion of the acquisition, the Directors of the Company anticipate that the Target Business' payables to Nwthl will have been capitalised. Following completion of the acquisition of the Target Business by the Company, the directors of the Company have confirmed their intention to provide continuing financial support to the Target Business to enable the Target Business to meet its liabilities as and when they fall due for a period of not less than 12 months.

Accordingly the Combined Financial Information has been prepared on a going concern basis.

2.2 *Subsidiaries*

2.2.1 *Consolidation*

A subsidiary is an entity (including a structured entity) over which the Target Business has control. The Target Business controls an entity when the Target Business is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Business. They are deconsolidated from the date that control ceases.

(a) *Business combination*

The Target Business applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

Target Business. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Target Business recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Target Business is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the accounting policies presented herewith.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in combined equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Target Business ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Target Business had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

2.3 *Foreign currency translation*

2.3.1 *Functional and presentation currency*

Items included in the financial statements of each of the entities comprising the Target Business are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The combined financial statements are presented in Hong Kong dollars ("HK\$"), which is the presentation currency of the Target Business.

2.3.2 *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates ruling at the end of the reporting period are recognised in the combined income statement.

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2.3.3 *Entities complying with the Target Business*

The results and financial position of all the Target Business entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each combined statement of financial position presented are translated at the exchange rate ruling at the date of that combined statement of the financial position;
- (b) income and expenses for each combined income statement are translated at average exchange rate during the period covered by the combined income statement; and
- (c) all resulting exchange differences are recognised in the other comprehensive income.

2.4 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director of the Target Business that makes strategic decisions.

2.5 *Property, plant and equipment*

Property, plant and equipment, comprising buildings, leasehold land, telecommunication equipment, computer equipment, furniture, fixtures and office equipment, leasehold improvements, motor vehicles and cables, are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Target Business and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged in the combined income statement during the financial period in which they are incurred. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying value of an asset is greater than its estimated recoverable amount.

2.5.1 *Assets under construction*

All direct costs relating to the construction of property, plant and equipment, including borrowing costs during the construction period are capitalised as the costs of the assets.

These includes staff costs that are directly attributable to the existing projects such as software and hardware installation and assembly activities to bring the project assets to the location and condition necessary for it to be capable of operating in the manner intended by management that will generate probable future economic benefits. Such development costs are transferred to telecommunication equipment when the related installation is complete.

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2.5.2 Depreciation

No depreciation is provided on assets under construction until such time when the relevant assets are completed and available for the intended use.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation of leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their costs to their estimated residual values over their estimated useful lives or, if shorter, the relevant finance lease periods. Estimated useful lives are summarised as follows:

Leasehold land classified as finance lease	Shorter of remaining lease term of 75 years or useful life
Buildings	2.5%
Telecommunication equipment	6.6% - 33.3%
Computer equipment	20%
Furniture, fixtures and office equipment	20%
Leasehold improvements	Shorter of the lease term or 20%
Motor vehicles	20%
Cables	6.6%

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.5.3 Gain or loss on disposal

The gain or loss on disposal of property, plant and equipment is determined by comparing the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the combined income statement.

2.6 Impairment of investments in subsidiaries and non-financial assets

Non-financial assets that have an indefinite useful life, for example goodwill, or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount. An impairment loss is recognised in the combined income statement for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped as cash-generating units for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

2.7 *Trade and other receivables*

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Target Business will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the combined income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited to the combined income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise "trade and other receivables" and 'cash and cash equivalents' in the balance.

2.8 *Cash and cash equivalents*

In the combined statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.9 *Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.10 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 *Current and deferred income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Target Business operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.12 *Share capital*

Ordinary shares are classified as equity.

2.13 *Employee benefits*

2.13.1 *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.13.2 *Bonus plans*

Provision for bonus plans are recognised when the Target Business has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.13.3 *Defined contribution plans*

A defined contribution plan is a pension plan under which the Target Business pays contributions into a separate entity. The Target Business has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to the Mandatory Provident Fund Scheme are expensed as incurred. Contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions, where applicable.

2.14 *Provisions*

Provisions are recognised when the Target Business has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.15 *Revenue recognition*

Revenue comprises the fair value of the consideration received or receivable for the services rendered in the ordinary course of the activities of the Target Business. Revenue is shown net of returns, rebates and discounts after eliminating sales within the Target Business.

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Target Business and specific criteria for each of the activities have been met. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

2.15.1 *Telecommunication services*

Telecommunication service revenue is recognised when service is rendered and is based on the usage of telecommunication network and facilities. Telecommunication revenue in respect of standard service plans billed in advance at year end is deferred and recognised when service is rendered. Revenue received in advance for the provision of telecommunication services using prepaid cards is deferred and amortised based on the actual usage by customers.

2.15.2 *Online marketing solutions*

Revenue for the provision of online marketing solutions is recognised when the services are rendered.

2.15.3 *Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Target Business reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.15.4 Barter trade agreements

The Target Business has certain agreements with third parties (the “Contract Parties”) in which the Target Business would provide its network capacity to the Contract Parties in a fixed period, and in exchange, the Contract Parties would provide the Target Business the right to use the network capacity of the Contract Parties in the same period. Since the arrangements involve exchange of services and capacity in a similar nature and value, the exchange is not recognised as a transaction which generates revenue, and accordingly, the network capacity of the Contract Parties under the agreements have not been recognised as an asset and no revenue or deferred revenue have been recognised in the financial statements of the Target Business.

2.16 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the combined income statement on a straight-line basis over the period of the lease.

3. Financial risk management and fair value estimation

3.1 Financial risk factors

The activities of the Target Business expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk.

Risk management is carried out by the directors of the Target Business. The Target Business adopts a conservative and balanced treasury policy which focuses on the financial risks factors as detailed below and seeks to minimise potential and adverse effects on the financial performance of the Target Business.

3.1.1 Market risk

(a) Foreign exchange risk

The Target Business mainly operates in Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi (“RMB”) and US dollar (“USD”). Entities within the Target Business are exposed to foreign exchange risk from future commercial transactions and monetary assets and liabilities that are denominated in a currency that is not the entity’s functional currency.

Since Hong Kong dollar (“HK\$”) is pegged to USD, management considers that there is no significant foreign currency risk between these two currencies to the Target Business. A sensitivity review on the foreign currency exposure of HK\$ against RMB is set out below.

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At 30th June 2013, 30th June 2015 and 30th September 2015, if HK\$ had weakened/strengthened by 5% against RMB with all other variables held constant, the profit before taxation of the Target Business would have been HK\$177,000, HK\$200,000 and HK\$209,000 higher/lower respectively.

At 30th June 2014, if HK\$ had weakened/strengthened by 5% against RMB with all other variables held constant, the loss before taxation of the Target Business would have been HK\$192,000 lower/higher respectively.

The Target Business closely monitors its foreign currency risk by observing the movement of the foreign currency rates. The Target Business currently does not have a foreign currency hedging policy.

This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual statement of financial position date. There are no other significant monetary balances held by the entities forming the Target Business at 30th June 2013, 2014 and 2015 and 30th September 2015 that are denominated in a non-functional currency. Currency risks as defined by HKFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency; differences resulting from the translation of financial statements into the presentation currency of the Target Business are not taken into consideration.

3.1.2 *Credit risk*

The credit risk of the Target Business mainly arises from deposits with banks, trade and other receivables and balances receivable from related companies.

Deposits are mainly placed with high-credit-quality financial institutions. Trade receivables mainly include receivables from operations. The Target Business carries out regular review and follow-up action on any overdue amounts to minimise exposures to credit risk. There is no concentration of credit risk with respect to trade receivables from third party customers as the customer bases are widely dispersed in different sectors and industries.

In addition, the Target Business monitors the exposure to credit risk in respect of the financial assistance provided to subsidiaries through exercising control or significant influence over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

3.1.3 *Liquidity risk*

With prudent liquidity risk management, the Target Business aims to maintain sufficient cash and cash equivalents and ensure the availability of funding through an adequate amount of available financing, including short-term bank loans and funding from the holding companies. Due to the dynamic nature of the underlying businesses, the finance department of the Target Business maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through having available sources of financing.

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The table below analyses the financial liabilities of the Target Business into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year
	<i>HK\$'000</i>
At 30th September 2015	
Trade payables	57,069
Other payables, deposits received and deferred income	65,409
Amounts due to NWTHL and NWTHL's ultimate holding company	2,546,380
Amounts due to NWTHL's fellow subsidiaries and related companies	<u>727</u>
	<u><u>2,669,585</u></u>
At 30th June 2015	
Trade payables	45,871
Other payables, deposits received and deferred income	66,303
Amounts due to NWTHL and NWTHL's ultimate holding company	2,546,377
Amounts due to NWTHL's fellow subsidiaries and related companies	<u>727</u>
	<u><u>2,659,278</u></u>
At 30th June 2014	
Trade payables	72,497
Other payables, deposits received and deferred income	69,046
Amounts due to NWTHL and NWTHL's ultimate holding company	2,533,322
Amounts due to NWTHL's fellow subsidiaries and related companies	<u>727</u>
	<u><u>2,675,592</u></u>
At 30th June 2013	
Trade payables	84,077
Other payables, deposits received and deferred income	63,563
Amounts due to NWTHL and NWTHL's ultimate holding company	2,407,908
Amounts due to NWTHL's fellow subsidiaries and related companies	727
Other financial obligation	<u>30,161</u>
	<u><u>2,586,436</u></u>

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

Less than 1 year

HK\$'000

(Unaudited)

At 1st July 2012

Trade payables	129,502
Other payables, deposits received and deferred income	59,681
Amounts due to NWTHL and NWTHL's ultimate holding company	2,293,005
Amounts due to NWTHL's fellow subsidiaries and related companies	727
Other financial obligation	33,080
	<u>2,515,995</u>

3.2 Capital management

The objectives of the Target Business when managing capital are to safeguard the ability of the Target Business to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Business may seek additional financial support from its ultimate holding company, issue or repurchase shares, raise new debt financing or sell assets to reduce debt.

The capital structure of the Target Business as at 1st July 2012, 30th June 2013, 2014 and 2015 and 30th September 2015 were as follows:

	As at 1st July 2012 HK\$'000 (Unaudited)		As at 30th June 2013 HK\$'000		As at 30th June 2014 HK\$'000		As at 30th June 2015 HK\$'000		As at 30th September 2015 HK\$'000
Combined Equity attributable to owners of the Target Business	(1,977,879)	(1,972,087)	(2,210,998)	(2,184,683)	(2,181,151)				
Amounts due to NWTHL and NWTHL's ultimate holding company	2,293,005	2,407,908	2,533,322	2,546,377	2,546,380				
Amounts due to NWTHL's fellow subsidiaries and related companies	727	727	727	727	727				
	<u>315,853</u>	<u>436,548</u>	<u>323,051</u>	<u>362,421</u>	<u>365,956</u>				

3.3 *Fair value estimation*

The carrying value less impairment provision of trade and other receivables, trade and other payables and balances with NWTHL's fellow subsidiaries and related companies, approximate their fair values due to short maturities.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Business makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 *Estimated useful lives and impairment of property, plant and equipment*

Property, plant and equipment are long-lived but may be subject to technical obsolescence. The annual depreciation charges are affected by the estimated useful lives that the Target Business allocates to each type of property, plant and equipment. Management performs annual reviews to assess the appropriateness of the estimated useful lives. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned.

Management also regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is lower than its recoverable amount which is the greater of its net selling price or its value in use. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as market competition and development and the expected growth in customers.

During the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2014 and 2015, the Target Business performed a value in use estimation for its property, plant and equipment by means of a discounted cash flow forecast analysis using a Weighted Average Cost of Capital (WACC) of 8.35% for all years and periods. Impairment charge of HK\$250,000,000 on property, plant and equipment under the Telecommunications services segment was recognised for the year ended 30th June 2014 using a Weighted Average Cost of Capital (WACC) of 8.35% and a 1% of perpetuity growth rate. The impairment was triggered by a potential reduction in projected revenue going forward. No impairment charge on property, plant and equipment was recognised for the years ended 30th June 2013 and 2015 and the three months ended 30th September 2014 and 2015.

4.2 *Impairment of receivables*

Management determine the provision for impairment of trade and other receivables and amounts due from NWTHL's fellow subsidiaries and related companies based on the credit history and the current market condition. The directors reassess the provision at each of the statement of financial position date.

Significant judgement is exercised on the assessment of the collectability of trade receivables. In making its judgement, management considers a wide range of factors such as results of follow-up procedures performed by sales personnel, customer payment trends including subsequent payments and customers' financial position. If the financial conditions of customers of the Target Business were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Provision for impairment charge of HK\$2,624,000, HK\$3,933,000, HK\$1,909,000 and HK\$577,000 of trade receivables have been charged to the combined income statement for the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2015 respectively. Reversal of provision for impairment of HK\$28,000 of trade receivables have been credited to the combined income statement for the three months ended 30th September 2014. No impairment charge has been recognised for other receivables for the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2014 and 2015.

4.3 *Income taxes and Deferred tax*

The Target Business is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Business recognises liabilities for anticipated tax charges based on estimates of whether additional taxes will be due. Where the final tax outcome is different from the amounts that were initially recorded, such difference will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Recognition of deferred income tax assets and liabilities, which principally relate to the tax losses and other temporary differences, depends on the management's expectation of the timing of reversal and the taxable profit that will be available against which tax losses can be utilised. The outcome of the actual realisation may be different.

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

5. Property, plant and equipment

	Leasehold land classified as finance lease <i>HK\$'000</i>	Buildings in Hong Kong <i>HK\$'000</i>	Telecommuni- -cation equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Leasehold Improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Cables <i>HK\$'000</i>	Assets under construction ⁽¹⁾ <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book value										
At 1st July 2012	8,845	17,131	379,074	17,869	2,607	1,020	942	—	15,251	442,739
Currency translation differences	—	—	—	—	8	—	—	—	—	8
Additions	—	—	96,280	12,580	271	213	195	—	14,542	124,081
Disposals	—	—	(346)	(7)	(6)	—	—	—	—	(359)
Depreciation charge for the year	(250)	(668)	(35,381)	(8,809)	(1,060)	(456)	(280)	—	—	(46,904)
At 30th June 2013	<u>8,595</u>	<u>16,463</u>	<u>439,627</u>	<u>21,633</u>	<u>1,820</u>	<u>777</u>	<u>857</u>	<u>—</u>	<u>29,793</u>	<u>519,565</u>
At 30th June 2013										
Cost	12,720	26,699	2,824,485	187,834	35,457	84,640	1,501	135,975	29,793	3,339,104
Accumulated depreciation	(4,125)	(10,236)	(1,970,683)	(159,077)	(33,303)	(83,356)	(644)	(135,975)	—	(2,397,399)
Accumulated impairment	—	—	(414,175)	(7,124)	(334)	(507)	—	—	—	(422,140)
Net book amount	<u>8,595</u>	<u>16,463</u>	<u>439,627</u>	<u>21,633</u>	<u>1,820</u>	<u>777</u>	<u>857</u>	<u>—</u>	<u>29,793</u>	<u>519,565</u>

	Leasehold land classified as finance lease <i>HK\$'000</i>	Buildings in Hong Kong <i>HK\$'000</i>	Telecommuni- -cation equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Leasehold Improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Cables <i>HK\$'000</i>	Assets under construction ⁽¹⁾ <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book value										
At 1st July 2013	8,595	16,463	439,627	21,633	1,820	777	857	—	29,793	519,565
Currency translation differences	—	—	—	—	(2)	(7)	—	—	—	(9)
Additions	—	—	110,200	2,633	105	1,276	—	—	6,037	120,251
Transfer	—	—	24,718	—	—	—	—	—	(24,718)	—
Disposals	—	—	(830)	(91)	(4)	(160)	—	—	—	(1,085)
Depreciation charge for the year	(250)	(667)	(44,262)	(8,690)	(984)	(755)	(268)	—	—	(55,876)
Impairment charge for the year	—	—	(249,990)	(10)	—	—	—	—	—	(250,000)
At 30th June 2014	<u>8,345</u>	<u>15,796</u>	<u>279,463</u>	<u>15,475</u>	<u>935</u>	<u>1,131</u>	<u>589</u>	<u>—</u>	<u>11,112</u>	<u>332,846</u>
At 30th June 2014										
Cost	12,720	26,699	2,957,111	189,614	35,379	85,420	1,501	135,975	11,112	3,455,531
Accumulated depreciation	(4,375)	(10,903)	(2,013,483)	(167,005)	(34,110)	(83,782)	(912)	(135,975)	—	(2,450,545)
Accumulated impairment	—	—	(664,165)	(7,134)	(334)	(507)	—	—	—	(672,140)
Net book amount	<u>8,345</u>	<u>15,796</u>	<u>279,463</u>	<u>15,475</u>	<u>935</u>	<u>1,131</u>	<u>589</u>	<u>—</u>	<u>11,112</u>	<u>332,846</u>

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	Leasehold land classified as finance lease	Buildings in Hong Kong	Telecommuni- -cation equipment	Computer equipment	Furniture, fixtures and office equipment	Leasehold Improvements	Motor vehicles	Cables	Assets under construction ⁽¹⁾	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net book value										
At 1st July 2014	8,345	15,796	279,463	15,475	935	1,131	589	—	11,112	332,846
Additions	—	—	101,262	2,045	105	251	—	—	—	103,663
Transfer	—	—	11,112	—	—	—	—	—	(11,112)	—
Disposals	—	—	(105)	(34)	(48)	—	(335)	—	—	(522)
Depreciation charge for the year	(249)	(668)	(30,869)	(6,462)	(591)	(490)	(123)	—	—	(39,452)
At 30th June 2015	<u>8,096</u>	<u>15,128</u>	<u>360,863</u>	<u>11,024</u>	<u>401</u>	<u>892</u>	<u>131</u>	<u>—</u>	<u>—</u>	<u>396,535</u>
At 30th June 2015										
Cost	12,720	26,699	3,069,121	190,753	35,260	85,671	544	135,975	—	3,556,743
Accumulated depreciation	(4,624)	(11,571)	(2,044,093)	(172,595)	(34,525)	(84,272)	(413)	(135,975)	—	(2,488,068)
Accumulated impairment	—	—	(664,165)	(7,134)	(334)	(507)	—	—	—	(672,140)
Net book amount	<u>8,096</u>	<u>15,128</u>	<u>360,863</u>	<u>11,024</u>	<u>401</u>	<u>892</u>	<u>131</u>	<u>—</u>	<u>—</u>	<u>396,535</u>

	Leasehold land classified as finance lease	Buildings in Hong Kong	Telecommuni- -cation equipment	Computer equipment	Furniture, fixtures and office equipment	Leasehold Improvements	Motor vehicles	Cables	Assets under construction ⁽¹⁾	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net book value										
At 30th June 2014	8,345	15,796	279,463	15,475	935	1,131	589	—	11,112	332,846
Currency translation differences	—	—	—	—	—	—	—	—	—	—
Additions	—	—	51,582	1,156	47	103	—	—	—	52,888
Transfer	—	—	11,112	—	—	—	—	—	(11,112)	—
Disposals	—	—	(33)	(1)	—	—	—	—	—	(34)
Depreciation charge for the period	(62)	(167)	(7,064)	(1,770)	(232)	(106)	(67)	—	—	(9,468)
At 30th September 2014	<u>8,283</u>	<u>15,629</u>	<u>335,060</u>	<u>14,860</u>	<u>750</u>	<u>1,128</u>	<u>522</u>	<u>—</u>	<u>—</u>	<u>376,232</u>
At 30th September 2014										
Cost	12,720	26,699	3,019,767	190,442	35,375	85,523	1,501	135,975	—	3,508,002
Accumulated depreciation	(4,437)	(11,070)	(2,020,542)	(168,448)	(34,291)	(83,888)	(979)	(135,975)	—	(2,459,630)
Accumulated impairment	—	—	(664,165)	(7,134)	(334)	(507)	—	—	—	(672,140)
Net book amount	<u>8,283</u>	<u>15,629</u>	<u>335,060</u>	<u>14,860</u>	<u>750</u>	<u>1,128</u>	<u>522</u>	<u>—</u>	<u>—</u>	<u>376,232</u>

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	Leasehold land classified as finance lease	Buildings in Hong Kong	Telecommuni- -cation equipment	Computer equipment	Furniture, fixtures and office equipment	Leasehold Improvements	Motor vehicles	Cables	Assets under construction ⁽¹⁾	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net book value										
At 30th June 2015	8,096	15,128	360,863	11,024	401	892	131	—	—	396,535
Currency translation differences	—	—	—	(3)	(3)	(6)	—	—	—	(12)
Additions	—	—	7,958	305	9	480	—	—	—	8,752
Disposals	—	—	(11)	—	—	—	—	—	—	(11)
Depreciation charge for the period	(63)	(166)	(8,413)	(1,354)	(59)	(146)	(19)	—	—	(10,220)
At 30th September 2015	<u>8,033</u>	<u>14,962</u>	<u>360,397</u>	<u>9,972</u>	<u>348</u>	<u>1,220</u>	<u>112</u>	<u>—</u>	<u>—</u>	<u>395,044</u>
At 30th September 2015										
Cost	12,720	26,699	3,077,068	191,042	35,225	86,131	544	135,975	—	3,565,404
Accumulated depreciation	(4,687)	(11,737)	(2,052,506)	(173,936)	(34,543)	(84,404)	(432)	(135,975)	—	(2,498,220)
Accumulated impairment	—	—	(664,165)	(7,134)	(334)	(507)	—	—	—	(672,140)
Net book amount	<u>8,033</u>	<u>14,962</u>	<u>360,397</u>	<u>9,972</u>	<u>348</u>	<u>1,220</u>	<u>112</u>	<u>—</u>	<u>—</u>	<u>395,044</u>

Notes:

- (1) No depreciation has been charged to the combined income statement in the financial year as these costs are involved in assets under construction that have not been completed in the financial year.

Depreciation has been charged to the combined income statement as administrative and other operating expenses (Note 15).

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6. Trade and other receivables

	As at 1st July 2012 HK\$'000 (Unaudited)		As at 30th June 2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	As at 30th September 2015 HK\$'000
Trade receivables	96,083		67,983	80,121	72,980	86,717
Less: provision for impairment of receivables	(15,280)		(6,671)	(7,940)	(7,315)	(7,573)
Trade receivables — net	80,803		61,312	72,181	65,665	79,144
Other receivables, prepayments and deposits under current assets	28,030		32,965	33,404	29,419	37,536
Other receivables, prepayments and deposits under non-current assets	13,527		18,569	21,453	2,230	2,323
Total	<u>122,360</u>		<u>112,846</u>	<u>127,038</u>	<u>97,314</u>	<u>119,003</u>

The carrying amounts of current trade receivables approximate their fair values. The currency risk exposure and credit risk exposure of trade receivables are disclosed in Note 3.

- (a) The carrying amounts of the trade receivables of the Target Business are denominated in the following currencies:

	As at 1st July 2012 HK\$'000 (Unaudited)		As at 30th June 2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	As at 30th September 2015 HK\$'000
HK\$	38,167		19,738	36,508	32,592	59,200
USD	42,093		40,900	34,610	31,971	18,185
RMB	543		674	1,063	1,102	1,759
	<u>80,803</u>		<u>61,312</u>	<u>72,181</u>	<u>65,665</u>	<u>79,144</u>

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- (b) The sales of the Target Business are with credit terms of 7 to 45 days. The ageing analysis of trade receivables based on invoice date is as follows:

	As at 1st July 2012 HK\$'000 (Unaudited)		As at 30th June 2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	As at 30th September 2015 HK\$'000
Within 90 days	76,550		45,805	61,625	55,496	71,293
91 to 150 days	4,253		2,861	3,808	3,304	2,909
Over 150 days	—		12,646	6,748	6,865	4,942
	<u>80,803</u>		<u>61,312</u>	<u>72,181</u>	<u>65,665</u>	<u>79,144</u>

- (c) As at 1st July 2012, 30th June 2013, 2014 and 2015 and 30th September 2015, trade receivables that were past due but not impaired of HK\$17,904,000, HK\$23,926,000, HK\$22,792,000, HK\$25,399,000 and HK\$26,279,000 respectively were related to a number of independent customers with no history of credit default and they are in continuous trading with the Target Business. Based on past experience, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Target Business does not hold any collateral over these balances. The ageing analysis of these trade receivables based on due date is as follows:

	As at 1st July 2012 HK\$'000 (Unaudited)		As at 30th June 2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	As at 30th September 2015 HK\$'000
Within 90 days	16,962		10,805	14,581	16,981	20,913
91 to 150 days	942		3,095	2,591	3,545	959
Over 150 days	—		10,026	5,620	4,873	4,407
	<u>17,904</u>		<u>23,926</u>	<u>22,792</u>	<u>25,399</u>	<u>26,279</u>

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- (d) As at 1st July 2012, 30th June 2013, 2014 and 2015 and 30th September 2015, trade receivables of HK\$15,280,000, HK\$6,671,000, HK\$7,940,000, HK\$7,315,000 and HK\$7,573,000 respectively have been impaired and fully provided for. The individually impaired receivables were mainly related to smaller customers who are in financial difficulties. The ageing analysis of these non-recoverable receivables based on due date is as follows:

	As at 1st July 2012 HK\$'000		As at 30th June 2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	As at 30th September 2015 HK\$'000
	(Unaudited)					
Within 90 days	3,385	—	1,884	541	89	
91 to 150 days	11,895	494	707	906	1,287	
Over 150 days	—	6,177	5,349	5,868	6,197	
	<u>15,280</u>	<u>6,671</u>	<u>7,940</u>	<u>7,315</u>	<u>7,573</u>	

- (e) Movement of provision for impairment of trade receivables is as follows:

	As at 1st July 2012 HK\$'000		As at 30th June 2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	As at 30th September 2015 HK\$'000
	(Unaudited)					
At beginning of the year/period	15,280	6,671	7,940	7,940	7,315	
Provision recognised/(written back) in income statement	2,624	3,933	1,909	(28)	577	
Receivables written-off during the year as uncollectible	<u>(11,233)</u>	<u>(2,664)</u>	<u>(2,534)</u>	<u>(836)</u>	<u>(319)</u>	
At end of the year/period	<u>6,671</u>	<u>7,940</u>	<u>7,315</u>	<u>7,076</u>	<u>7,573</u>	

The origination of provision for impaired receivables has been included in administrative and other operating expenses in the combined income statement (Note 15). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

7. Amounts due from NWTHL's fellow subsidiaries and related companies

The amounts are unsecured, interest-free, repayable on demand, and denominated in Hong Kong dollars.

8. Cash and cash equivalents

	As at 1st July 2012 HK\$'000 (Unaudited)		As at 30th June 2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	As at 30th September 2015 HK\$'000
Cash in hand	503		462	449	369	399
Cash at bank	9,480		14,536	52,230	41,463	19,750
	<u>9,983</u>		<u>14,998</u>	<u>52,679</u>	<u>41,832</u>	<u>20,149</u>

(a) Cash and cash equivalents included the following for the purposes of the combined statement of cash flows:

	As at 1st July 2012 HK\$'000 (Unaudited)		As at 30th June 2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	As at 30th September 2015 HK\$'000
Cash and cash equivalents	<u>9,983</u>		<u>14,998</u>	<u>52,679</u>	<u>41,832</u>	<u>20,149</u>

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- (b) The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	As at 1st July 2012 HK\$'000 (Unaudited)		As at 30th June 2013 HK\$'000		As at 30th June 2014 HK\$'000		As at 30th June 2015 HK\$'000		As at 30th September 2015 HK\$'000
HK\$	6,116		10,675		45,797		36,297		14,993
RMB	2,627		3,678		4,309		4,806		4,314
USD	1,051		460		2,402		482		596
Others	189		185		171		247		246
	<u>9,983</u>		<u>14,998</u>		<u>52,679</u>		<u>41,832</u>		<u>20,149</u>

9. Combined capital

Combined capital for the purposes of this combined financial information represents the combined share capital attributable to the owner of Concord Ideas Ltd. and Simple Click Investments Limited.

10. Trade payables, other payables, accrued charges, deposits received and deferred income

	As at 1st July 2012 HK\$'000 (Unaudited)		As at 30th June 2013 HK\$'000		As at 30th June 2014 HK\$'000		As at 30th June 2015 HK\$'000		As at 30th September 2015 HK\$'000
Trade payables	129,502		84,077		72,497		45,871		57,069
Other payables, accrued charges, deposits received and deferred income	<u>104,121</u>		<u>106,755</u>		<u>123,699</u>		<u>129,594</u>		<u>114,089</u>

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- (a) The carrying amounts of trade payables are denominated in the following currencies:

	As at 1st July 2012 <i>HK\$'000</i> (Unaudited)	As at 30th June 2013 <i>HK\$'000</i>	As at 30th June 2014 <i>HK\$'000</i>	As at 30th June 2015 <i>HK\$'000</i>	As at 30th September 2015 <i>HK\$'000</i>
HK\$	95,204	61,574	57,983	39,775	49,397
USD	33,000	21,276	14,149	5,790	7,375
RMB	1,288	1,155	359	300	291
Others	10	72	6	6	6
	<u>129,502</u>	<u>84,077</u>	<u>72,497</u>	<u>45,871</u>	<u>57,069</u>

- (b) At 1st July 2012, 30th June 2013, 2014 and 2015 and 30th September 2015, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 1st July 2012 <i>HK\$'000</i> (Unaudited)	As at 30th June 2013 <i>HK\$'000</i>	As at 30th June 2014 <i>HK\$'000</i>	As at 30th June 2015 <i>HK\$'000</i>	As at 30th September 2015 <i>HK\$'000</i>
0-30 days	64,768	42,579	34,041	14,217	26,917
31-60 days	9,831	6,425	3,937	2,959	1,504
61-90 days	15,192	6,335	3,822	4,236	3,405
Over 90 days	39,711	28,738	30,697	24,459	25,243
	<u>129,502</u>	<u>84,077</u>	<u>72,497</u>	<u>45,871</u>	<u>57,069</u>

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12. Deferred tax

Deferred taxation is calculated for the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2015 in full on temporary differences under the liability method using a principal taxation rate of 16.5% respectively. The movements in the recognised deferred tax (assets)/liabilities (prior to offsetting of balances within the same tax jurisdiction) during the years are as follows:

Deferred tax (assets)/liabilities	Tax losses <i>HK\$'000</i>	Accelerated tax depreciation <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2012	(3,728)	3,728	—
(Credited)/charged to profit or loss	<u>(11,084)</u>	<u>11,084</u>	<u>—</u>
At 30 June 2013	(14,812)	14,812	—
At 1 July 2013	(14,812)	14,812	—
Charged/(Credited) to profit or loss	<u>14,812</u>	<u>(14,812)</u>	<u>—</u>
At 30 June 2014	<u>—</u>	<u>—</u>	<u>—</u>
At 1 July 2014	—	—	—
Charged to profit or loss	<u>—</u>	<u>—</u>	<u>—</u>
At 30 June 2015	<u>—</u>	<u>—</u>	<u>—</u>
At 1 July 2015	—	—	—
Charged to profit or loss	<u>—</u>	<u>—</u>	<u>—</u>
At 30 September 2015	<u>—</u>	<u>—</u>	<u>—</u>

As at 30th June 2013, 2014 and 2015 and 30th September 2015, the Target Business did not recognise deferred income tax assets of HK\$453,300,000, HK\$474,252,000, HK\$482,168,000 and HK\$482,330,000, respectively in respect of losses amounting to HK\$2,747,276,000, HK\$2,874,256,000, HK\$2,922,232,000 and HK\$2,923,211,000 respectively that can be carried forward against future taxable income. There is no limitation in Hong Kong on the period in which the Target Business' tax losses carried forward can be utilised.

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13. Other financial obligation

Movement of other financial obligation is as follows:

	As at 1st July 2012 <i>HK\$'000</i> <i>(Unaudited)</i>	As at 30th June 2013 <i>HK\$'000</i>	As at 30th June 2014 <i>HK\$'000</i>	As at 30th September 2015 <i>HK\$'000</i>	As at 30th September 2015 <i>HK\$'000</i>
At beginning of the year/period	34,516	33,080	30,161	—	—
Finance cost paid	3,193	2,003	—	—	—
Credit received	—	—	(11)	—	—
Repayment of other financial obligation	<u>(4,629)</u>	<u>(4,922)</u>	<u>(30,150)</u>	<u>—</u>	<u>—</u>
At end of the year/period	<u>33,080</u>	<u>30,161</u>	<u>—</u>	<u>—</u>	<u>—</u>

Other financial obligation represents the amount of cash received by the Target Business and the finance costs accrued to meet the future obligation of the Target Business relating to a leverage lease arrangement that ended in the year ended 30 June 2014.

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14. Revenue, other income/gains, net and segment information

(a) Segment information

The chief operating decision-maker has been identified as the Managing Director of the Target Business, who reviews the internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Target Business has two reportable segments: the provision of telecommunication services and online marketing solutions. The Managing Director assesses the performance of the operating segments based on a measure of revenue and operating profit/(loss). All revenue and the majority of the assets and operations of the Target Business are located in Hong Kong. The segment information on revenue, profit/(loss) before tax, total assets and total liabilities agreed to the aggregate information in the financial information. As such, no reconciliation between the segment information and the aggregate financial information is presented.

	Year ended 30th June 2013 and as at 30th June 2013		
	Telecommunication services <i>HK\$'000</i>	Online marketing solutions <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue from external customers	<u>697,157</u>	<u>96,680</u>	<u>793,837</u>
Other income/gains — net	<u>12,221</u>	<u>755</u>	<u>12,976</u>
Operating profit/(loss)	8,550	(4,113)	4,437
Finance costs	<u>(2,041)</u>	<u>—</u>	<u>(2,041)</u>
Profits/(loss) before tax	<u>6,509</u>	<u>(4,113)</u>	<u>2,396</u>
Total segment assets	<u>627,465</u>	<u>30,076</u>	<u>657,541</u>
Total segment liabilities	<u>(2,570,386)</u>	<u>(59,242)</u>	<u>(2,629,628)</u>
Additions to non-current assets ⁽¹⁾	123,268	813	124,081
Depreciation of property, plant and equipment	<u>45,178</u>	<u>1,726</u>	<u>46,904</u>

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	Year ended 30th June 2014 and as at 30th June 2014		
	Telecommunication services <i>HK\$'000</i>	Online marketing solutions <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue from external customers	<u>654,782</u>	<u>122,086</u>	<u>776,868</u>
Other income/gains — net	<u>12,332</u>	<u>1,471</u>	<u>13,803</u>
Operating (loss)/profit	<u>(243,070)</u>	<u>4,063</u>	<u>(239,007)</u>
(Loss)/profits before tax	<u>(243,070)</u>	<u>4,063</u>	<u>(239,007)</u>
Total segment assets	<u>484,167</u>	<u>35,080</u>	<u>519,247</u>
Total segment liabilities	<u>(2,670,062)</u>	<u>(60,183)</u>	<u>(2,730,245)</u>
Additions to non-current assets ⁽¹⁾	120,019	232	120,251
Depreciation of property, plant and equipment	54,636	1,240	55,876
Impairment of property, plant and equipment	<u>250,000</u>	<u>—</u>	<u>250,000</u>

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	Year ended 30th June 2015 and as at 30 June 2015		
	Telecommunication services <i>HK\$'000</i>	Online marketing solutions <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue from external customers	<u>612,637</u>	<u>137,456</u>	<u>750,093</u>
Other income/gains — net	<u>12,567</u>	<u>2,652</u>	<u>15,219</u>
Operating profit	<u>16,125</u>	<u>10,189</u>	<u>26,314</u>
Profits before tax	<u>16,125</u>	<u>10,189</u>	<u>26,314</u>
Total segment assets	<u>502,450</u>	<u>35,436</u>	<u>537,886</u>
Total segment liabilities	<u>(2,672,218)</u>	<u>(50,351)</u>	<u>(2,722,569)</u>
Additions to non-current assets ⁽¹⁾	103,617	46	103,663
Depreciation of property, plant and equipment	<u>38,630</u>	<u>822</u>	<u>39,452</u>

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	Period ended 30th September 2014		
	(Unaudited)		
	Telecommunication services <i>HK\$'000</i>	Online marketing solutions <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue from external customers	<u>155,786</u>	<u>34,050</u>	<u>189,836</u>
Other income/gains — net	<u>3,917</u>	<u>346</u>	<u>4,263</u>
Operating profit	<u>6,150</u>	<u>2,818</u>	<u>8,968</u>
Profits before tax	<u>6,150</u>	<u>2,818</u>	<u>8,968</u>
Additions to non-current assets ⁽¹⁾	52,888	—	52,888
Depreciation of property, plant and equipment	<u>9,272</u>	<u>196</u>	<u>9,468</u>

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**Period ended 30th September 2015 and
as at 30th September 2015**

	Telecommunication services <i>HK\$'000</i>	Online marketing solutions <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue from external customers	<u>136,033</u>	<u>38,385</u>	<u>174,418</u>
Other income/gains — net	<u>3,038</u>	<u>308</u>	<u>3,346</u>
Operating profit	<u>196</u>	<u>3,401</u>	<u>3,597</u>
Profits before tax	<u>196</u>	<u>3,401</u>	<u>3,597</u>
Total segment assets	<u>498,250</u>	<u>38,864</u>	<u>537,114</u>
Total segment liabilities	<u>(2,682,424)</u>	<u>(35,841)</u>	<u>(2,718,265)</u>
Additions to non-current assets ⁽¹⁾	8,744	8	8,752
Depreciation of property, plant and equipment	<u>10,110</u>	<u>110</u>	<u>10,220</u>

Notes:

(1) The additions to non-current assets exclude financial instruments and deferred tax assets.

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(b) Analysis of revenue and other income/gains, net by category

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Revenue from external customers	<u>793,837</u>	<u>776,868</u>	<u>750,093</u>	<u>189,836</u>	<u>174,418</u>
<i>Other income/gains — net</i>					
Office rental and management fee (Note 20)	5,500	7,431	10,080	2,520	2,520
Interest income from banks	12	15	16	1	1
Gain/(loss) on disposal of property, plant and equipment (Note 18)	(335)	(1,083)	19	(31)	(11)
Others	<u>7,799</u>	<u>7,440</u>	<u>5,104</u>	<u>1,773</u>	<u>836</u>
	<u>12,976</u>	<u>13,803</u>	<u>15,219</u>	<u>4,263</u>	<u>3,346</u>
Total revenue and other income/gains, net	<u>806,813</u>	<u>790,671</u>	<u>765,312</u>	<u>194,099</u>	<u>177,764</u>

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15. Expenses by nature

Expenses included in cost of sales, selling expenses, administrative and other operating expenses are analysed as follows:

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Unaudited)</i>				
Auditor's remuneration					
— Audit services	1,350	1,350	1,421	355	373
— Non-audit services	152	75	84	21	25
Cost of IDD voice calls, interconnectivity charges, data services and others	402,629	333,402	293,958	74,616	60,204
Cost of providing online marketing solutions services	63,984	77,639	85,150	21,088	25,122
Depreciation of property, plant and equipment (Note 5)	46,904	55,876	39,452	9,468	10,220
Operating lease rental for land and buildings	21,942	23,049	23,693	5,717	6,361
Provision/(Reversal of Provision) for impairment of trade receivables (Note 6)	2,624	3,933	1,909	(28)	577
Impairment of property, plant and equipment (Note 5)	—	250,000	—	—	—
Employee benefit expenses (Note 16)	160,619	169,248	171,048	43,961	43,858
Others	102,172	115,106	122,283	29,933	27,427
	<u>802,376</u>	<u>1,029,678</u>	<u>738,998</u>	<u>185,131</u>	<u>174,167</u>

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16. Employee benefit expenses (including directors' emoluments)

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Wages, salaries and bonuses	144,564	151,976	153,480	39,636	39,573
Pension costs - defined contribution plans	11,291	12,390	12,013	3,076	3,111
Medical insurance, staff welfare and other allowances	4,764	4,882	5,555	1,249	1,174
	<u>160,619</u>	<u>169,248</u>	<u>171,048</u>	<u>43,961</u>	<u>43,858</u>

(a) Pension costs — defined contribution plan

The Target Business operates a defined contribution plan which covers all full-time employees and directors. No forfeited contribution was incurred during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Business included 1 director for the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2014 and 2015, whose emoluments are reflected in the analysis shown in Note 21. The emoluments payable to the remaining 4 individuals are as follows:

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Salaries and other benefits	7,205	7,430	7,692	1,923	2,000
Bonus	1,588	1,780	1,794	447	515
Pension costs - defined contribution plans	598	727	758	182	200
	<u>9,391</u>	<u>9,937</u>	<u>10,244</u>	<u>2,552</u>	<u>2,715</u>

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The number of highest paid individuals whose emoluments fell within the following bands:

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
				<i>(Unaudited)</i>	
Below HK\$1,500,000	—	—	—	4	4
HK\$1,500,000 - HK\$2,000,000	2	1	1	—	—
HK\$2,000,001 - HK\$3,000,000	1	2	2	—	—
HK\$3,000,001 - HK\$4,000,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>

17. Income tax expense

No Hong Kong profits tax has been provided as the Target Business has no estimated assessable profit for the Relevant Periods. Taxation on overseas profits, if any, have been calculated on the estimated assessable profit for the year/period at the rates of taxation prevailing in the countries in which the Target Business operates.

The tax on the profit/(loss) before income tax of the Target Business differs from the theoretical amount that would arise using the Hong Kong profit tax rate applicable to the entities as follows:

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>	
Profit/(loss) before income tax	<u>2,396</u>	<u>(239,007)</u>	<u>26,314</u>	<u>8,968</u>	<u>3,597</u>
Tax calculated at 16.5% (2015: 16.5%, 2014: 16.5% 2013: 16.5%)	395	(39,436)	4,342	1,480	593
Income not subject to taxation	(8,033)	(441)	(423)	(171)	(70)
Expenses not deductible for taxation purposes	1,252	42,135	390	40	122
Unrecognised tax losses	5,866	10,256	9,678	5,638	747
Utilisation of previously unrecognised tax losses	—	(948)	(1,762)	(440)	(579)
Temporary differences not recognized	—	(11,915)	(12,304)	(6,598)	(832)
Others	<u>520</u>	<u>349</u>	<u>79</u>	<u>51</u>	<u>19</u>
Income tax expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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18. Note to the combined statement of cash flows

Reconciliation of profit/(loss) before income tax to cash generated from/(used in) operations

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Profit/(loss) before income tax	2,396	(239,007)	26,314	8,968	3,597
Adjustment for:					
Depreciation of property, plant and equipment	46,904	55,876	39,452	9,468	10,220
Provision/(Reversal of provision) for impairment of trade receivables	2,624	3,933	1,909	(28)	577
Impairment of property, plant and equipment	—	250,000	—	—	—
Loss/(gain) on disposal of property, plant and equipment (Note 14(b))	335	1,083	(19)	31	11
Reversal of provision of other financial obligation	—	(11)	—	—	—
Expenses borne by NWTHL	3,380	140	—	—	—
Interest income	(12)	(15)	(16)	(1)	(1)
Interest expenses	2,041	—	—	—	—
Operating profit before working capital changes	57,668	71,999	67,640	18,438	14,404
Changes in working capital:					
Trade receivables	16,867	(14,802)	4,607	(20,373)	(14,056)
Other receivables, prepayments and deposits	(4,935)	(439)	3,985	(6,488)	(8,117)
Trade payables	(45,425)	(11,580)	(26,626)	7,139	11,198
Other payables, accrued charges, deposits received and deferred income	2,634	16,944	5,895	(3,794)	(15,505)
Amounts due from NWTHL's fellow subsidiaries and related companies, net of amounts due to NWTHL and its fellow subsidiaries and related companies	(6,756)	3,382	4,533	1,668	(710)
Cash generated from/(used in) operations	20,053	65,504	60,034	(3,410)	(12,786)

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In the statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Net book amount of property, plant and equipment (Note 5)	359	1,085	522	34	11
(Loss)/gain on disposal of property, plant and equipment (Note 14(b))	(335)	(1,083)	19	(31)	(11)
Proceeds from disposal of property, plant and equipment	<u>24</u>	<u>2</u>	<u>541</u>	<u>3</u>	<u>—</u>

19. Commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at 30th June			As at 30th September
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	<u>117,124</u>	<u>124,257</u>	<u>90,862</u>	<u>81,964</u>

Commitments under operating leases

The Target Business had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 30th June			As at 30th September
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Land and buildings				
Within one year	22,381	20,541	10,086	26,167
In the second to fifth years inclusive	<u>21,615</u>	<u>1,392</u>	<u>14,795</u>	<u>43,603</u>
	<u>43,996</u>	<u>21,933</u>	<u>24,881</u>	<u>69,770</u>

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20. Related party transactions

The ultimate holding company of NWTHL is New World Development Company Limited (incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited).

(a) Transactions with related parties

The Target Business undertook the following material transactions with related parties, which were carried out in the normal course of the business, during the year:

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Unaudited)</i>				
(i) Sales of services					
- Ultimate holding company of NWTHL	835	1,119	2,219	1,208	301
- Fellow subsidiaries	37,054	31,493	29,235	6,971	6,351
- Related companies	9,514	15,556	9,767	2,502	2,815
	<u>47,403</u>	<u>48,168</u>	<u>41,221</u>	<u>10,681</u>	<u>9,467</u>
(ii) Purchases of goods and services					
- Ultimate holding company of NWTHL	—	—	—	—	(7)
- Fellow subsidiaries	—	(733)	(788)	(170)	(315)
- Related company	(3,842)	(3,377)	(3,365)	(2,140)	(1,981)
	<u>(3,842)</u>	<u>(4,110)</u>	<u>(4,153)</u>	<u>(2,310)</u>	<u>(2,303)</u>
(iii) Lease of office					
- Office rental and management fee paid to fellow subsidiary	(24,829)	(25,768)	(15,486)	(3,860)	(4,218)
- Office rental and management fee paid to related company	—	—	(10,650)	(2,582)	(2,900)
- Office rental and management fee received from related companies (Note 14(b))	<u>5,500</u>	<u>7,431</u>	<u>10,080</u>	<u>2,520</u>	<u>2,520</u>

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

	Year ended 30th June			Three months ended 30th September	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Unaudited)</i>				
(iv) Disposal of assets					
- Related company, at net book value	<u>—</u>	<u>—</u>	<u>400</u>	<u>—</u>	<u>—</u>

The Target Business entered into the above significant transactions with related parties at prices agreed upon by the parties involved and in the normal course of business during the year.

(b) Year end balances with related parties — Target Business

	As at 1st July 2012 HK\$'000	As at 30th June 2013 HK\$'000	As at 30th June 2014 HK\$'000	As at 30th June 2015 HK\$'000	As at 30th September 2015 HK\$'000
	<i>(Unaudited)</i>				
Receivables from					
- Related companies	3,348	2,821	2,380	680	662
- Fellow subsidiaries	<u>4,126</u>	<u>7,311</u>	<u>4,304</u>	<u>1,525</u>	<u>2,256</u>
	<u>7,474</u>	<u>10,132</u>	<u>6,684</u>	<u>2,205</u>	<u>2,918</u>
Payables to					
- NWTHL and NWTHL's ultimate holding company	2,293,005	2,407,908	2,533,322	2,546,377	2,546,380
- Fellow subsidiaries	<u>727</u>	<u>727</u>	<u>727</u>	<u>727</u>	<u>727</u>
	<u>2,293,732</u>	<u>2,408,635</u>	<u>2,534,049</u>	<u>2,547,104</u>	<u>2,547,107</u>

(c) Key management compensation

Key management personnel are deemed to be the members of the Board of directors of NWTHL which has the responsibility for planning, directing and controlling the activities of the Target Business. Key management compensation is disclosed in Note 21.

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

21. Benefits and interests of directors

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 30th June 2013:

Emoluments paid or receivable in respect of a person's services as a director of the Target Business, whether of NWTHL or its subsidiary undertaking									
Name of Directors	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of NWTHL or its subsidiary undertaking	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Cheng Kar Shun, Henry	400	—	—	—	—	—	—	—	400
Mr. To Hin Tsun, Gerald	400	—	—	—	—	—	—	—	400
Mr. Wai, Norman Fung Man	400	5,160	3,580	—	—	688	—	—	9,828
Mr. Au Tak Cheong	400	—	—	—	—	—	—	—	400

For the year ended 30th June 2014:

Emoluments paid or receivable in respect of a person's services as a director of the Target Business, whether of NWTHL or its subsidiary undertaking									
Name of Directors	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of NWTHL or its subsidiary undertaking	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Cheng Kar Shun, Henry	400	—	—	—	—	—	—	—	400
Mr. To Hin Tsun, Gerald	400	—	—	—	—	—	—	—	400
Mr. Wai, Norman Fung Man	400	5,400	4,000	—	—	810	—	—	10,610
Mr. Au Tak Cheong	400	—	—	—	—	—	—	—	400

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

For the year ended 30th June 2015:

Emoluments paid or receivable in respect of a person's services as a director of the Target Business, whether of NWTHL or its subsidiary undertaking

Name of Directors	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of NWTHL or its subsidiary undertaking	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Cheng Kar Shun, Henry	—	—	—	—	—	—	—	—	—
Mr. To Hin Tsun, Gerald	—	—	—	—	—	—	—	—	—
Mr. Wai, Norman Fung Man	—	5,760	2,500	—	—	860	—	—	9,120
Mr. Au Tak Cheong	—	—	—	—	—	—	—	—	—

For the period ended 30th September 2014 (Unaudited):

Emoluments paid or receivable in respect of a person's services as a director of the Target Business, whether of NWTHL or its subsidiary undertaking

Name of Directors	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of NWTHL or its subsidiary undertaking	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Cheng Kar Shun, Henry	—	—	—	—	—	—	—	—	—
Mr. To Hin Tsun, Gerald	—	—	—	—	—	—	—	—	—
Mr. Wai, Norman Fung Man	—	1,440	2,500	—	—	212	—	—	4,152
Mr. Au Tak Cheong	—	—	—	—	—	—	—	—	—

APPENDIX II ACCOUNTANT'S REPORT ON THE TARGET BUSINESS

For the period ended 30th September 2015:

Emoluments paid or receivable in respect of a person's services as a director of the Target Business, whether of NWTHL or its subsidiary undertaking

Name of Directors	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of NWTHL or its subsidiary undertaking	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Cheng Kar Shun, Henry	—	—	—	—	—	—	—	—	—
Mr. To Hin Tsun, Gerald	—	—	—	—	—	—	—	—	—
Mr. Wai, Norman Fung Man	—	1,500	3,500	—	—	225	—	—	5,225
Mr. Au Tak Cheong	—	—	—	—	—	—	—	—	—

(b) Other benefits and interests of directors

During the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2014 and 2015, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable. No consideration was provided to or receivable by third parties for making available directors' services for the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2014 and 2015. There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities for the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2014 and 2015.

No director of the Target Business had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Target business to which the Target Business was or is a party that subsisted at the end of the year or at any time for the years ended 30th June 2013, 2014 and 2015 and the three months ended 30th September 2014 and 2015.

22. Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of the Combined Financial Information, is not considered meaningful due to the preparation of the results for each of the years ended 30th June 2013, 2014, 2015 and for the three months ended 30th September 2014 and 2015 on a combined basis as disclosed in Note 1 above.

23. Subsequent events

On 18th February 2016, a subsidiary of the Company entered into a share purchase agreement with NWTHL, to acquire the Target Business through the acquisition of the entire issued share capital of Concord Ideas Ltd. and Simple Click Investments Limited 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, the same parties agreed to a) enter into a rebate agreement upon closing of the acquisition whereby the acquirer will provide cash rebates to NWTHL for services provided by the Group and the Target Business to NWTHL’s parent company and related entities based on 50% of settled invoices up to HK\$50 million in aggregate; and b) agreed that on or prior to closing of the acquisition, the amounts owed by the Target Business to NWTHL will be capitalised.

24. Transition to HKFRS — 1 July 2012

HKFRS 1 “First-time adoption of HKFRSs” sets out the transitional rules which must be applied when HKFRSs are applied for the first time. The Target Business is required to select accounting policies, in accordance with HKFRSs, valid at the reporting date and apply those policies retrospectively. The standard sets out certain mandatory exceptions to retrospective application and certain optional exemptions. The Target Business has not applied any of the optional first time adoption exemptions in HKFRS 1. The Target Business has not previously prepared or reported any combined financial information in accordance with any other generally accepted accounting principles (“GAAP”). Consequently, no reconciliation between financial information prepared under any previous GAAP and this combined financial information is presented herein.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any entity comprising the Target Business in respect of any period subsequent to 30th September 2015 up to the date of this report. No dividend or distribution has been declared or made by any entity comprising the Target Business in respect of any period subsequent to 30th September 2015.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following management discussion and analysis is based on the financial information included in the accountant's report on the Target Business as set out in Appendix II to this circular for the three years ended 30 June 2013, 2014 and 2015 and for the three months ended 30 September 2014 and 2015.

1. REVIEW OF FINANCIAL RESULTS OF THE TARGET BUSINESS

Revenue

The Target Business recorded revenue of HK\$793.8 million, HK\$776.9 million, HK\$750.1 million, HK\$189.8 million and HK\$174.4 million for each of the years ended 30 June 2013, 2014 and 2015, and for the three months ended 30 September 2014 and 2015, respectively. Revenue decreased by 2.1% for the year ended 30 June 2014 as compared to the year ended 30 June 2013 and by 3.4% for the year ended 30 June 2015 as compared to the year ended 30 June 2014. Revenue decreased in the three months ended 30 September 2015 by 8.1% as compared to the same period in the previous year.

The telecommunications services segment recorded revenue of HK\$697.2 million, HK\$654.8 million, HK\$612.6 million, HK\$155.8 million and HK\$136.0 million for each of the years ended 30 June 2013, 2014 and 2015, and for the three months ended 30 September 2014 and 2015, respectively. Revenue decreased by 6.1% for the year ended 30 June 2014 as compared to the year ended 30 June 2013 and by 6.4% for the year ended 30 June 2015 as compared to the year ended 30 June 2014. Revenue decreased by 12.7% in the three months ended 30 September 2015 as compared to the same period in the previous year. The decrease in revenue of the telecommunications services segment in the relevant period was largely attributable to a decrease in revenue from wholesale IDD services as a result of focusing on high profit margin countries. Such decrease was partially offset by stable growth in data services.

The online marketing solutions services segment recorded revenue of HK\$96.7 million, HK\$122.1 million, HK\$137.5 million, HK\$34.1 million and HK\$38.4 million for each of the years ended 30 June 2013, 2014 and 2015, and for the three months ended 30 September 2014 and 2015, respectively. Revenue increased by 26.3% for the year ended 30 June 2014 as compared to the year ended 30 June 2013 and by 12.6% for the year ended 30 June 2015 as compared to the year ended 30 June 2014. Revenue increased by 12.7% in the three months ended 30 September 2015 as compared to the same period in the previous year. The strong growth in revenue of the online marketing solutions services segment over the relevant period was due to the growth in the online advertisement industry, which increased demand for online marketing solutions services.

Cost of sales

The Target Business incurred costs of sales of HK\$466.6 million, HK\$411.0 million, HK\$379.1 million, HK\$95.7 million and HK\$85.3 million for each of the years ended 30 June 2013, 2014 and

2015, and for the three months ended 30 September 2014 and 2015, respectively. Cost of sales comprised mainly of network costs including international tariff cost, international bandwidth costs, leased line rentals, interconnection charges payable to other fixed network operators and cost in providing online marketing solutions services.

The cost of sales has continuously decreased in the period under review, which is in line with the general decline in revenue in the same period. This was mainly due to the decrease in cost of sales of wholesale IDD services, but the decrease was partially offset by the increase in cost in providing online marketing solutions services.

Gross profit

As a result of the above, the Target Business recorded a gross profit of HK\$327.2 million, HK\$365.8 million, HK\$371.0 million, HK\$94.1 million and HK\$89.1 million for each of the years ended 30 June 2013, 2014 and 2015 and for the three months ended 30 September 2014 and 2015, respectively. The gross profit margin was 41.2%, 47.1%, 49.5%, 49.6% and 51.1% for each of the years ended 30 June 2013, 2014 and 2015, and for the three months ended 30 September 2014 and 2015, respectively. The increase in gross profit margin was driven by margin improvements in both the telecommunication services segment, which had an improvement in profit margin from wholesale IDD services, and the online marketing services segment, which benefitted from economies of scale from the strong growth in demand for online marketing solutions services.

Selling, administrative and other operating expenses

Selling, administrative and other operating expenses of the Target Business comprise depreciation expenses, employee benefit expenses, selling expenses and others, which were HK\$335.8 million, HK\$368.6 million, HK\$359.9 million, HK\$89.4 million and HK\$88.8 million for each of the years ended 30 June 2013, 2014, 2015, and for the three months ended 30 September 2014 and 2015, respectively.

(in HK\$ million)	For the financial year ended			For the three months ended	
	30 June 2013	30 June 2014	30 June 2015	30 September 2014	30 September 2015
				<i>(Unaudited)</i>	
Depreciation	46.9	55.9	39.5	9.5	10.2
Employee benefit expenses	160.6	169.2	171.0	44.0	43.9
Selling expenses	18.5	22.3	26.4	6.0	5.4
Others	109.8	121.2	123.0	29.9	29.3
	<u>335.8</u>	<u>368.6</u>	<u>359.9</u>	<u>89.4</u>	<u>88.8</u>

Selling, administrative and other expenses increased by 9.8% for the year ended 30 June 2014 as compared to the year ended 30 June 2013. This was mainly due to the increase in commission expenses to support business development, the increase in employee benefit expenses and the increase in depreciation expenses due to the accumulated capital expenditure invested in the expansion of network capacity and improve coverage.

Selling, administrative and other expenses slightly decreased by 2.4% for the year ended 30 June 2015 as compared to the year ended 30 June 2014 was due to the combined effect from the increase in commission expenses to support business development and decrease in depreciation expenses due to the provision of impairment on property, plant and equipment recognized in the year ended 30 June 2014.

Selling, administrative and other expenses decreased in the three months ended 30 September 2015 by 0.7% as compared to the same period in the previous year. This was mainly due to the decrease in selling expenses resulting from the decrease in revenue during the period.

EBITDA

The Target Business's EBITDA were HK\$51.3 million, HK\$66.9 million, HK\$65.8 million, HK\$18.4 million and HK\$13.8 million for each of the years ended 30 June 2013, 2014, 2015, and for the three months ended 30 September 2014 and 2015, respectively.

The Target Business's EBITDA increased by 30.4% for the year ended 30 June 2014 as compared to the year ended 30 June 2013, which was mainly due to the change in business strategy from being revenue-oriented to focusing on the higher profit margin market of IDD services.

The Target Business's EBITDA decreased by 1.6% for the year ended 30 June 2015 as compared to the year ended 30 June 2014, due to the slight increase in selling expenses and other operating expenses.

The Target Business's EBITDA decreased by 25.0% for the three months ended 30 September 2015 as compared to the same period in the previous year, due to the decrease in revenue from the telecommunications services segment.

Income tax expense

No Hong Kong profits tax has been provided as the Target Business did not generate any assessable profits in Hong Kong in the Relevant Periods or had no estimated assessable profit for the Relevant Periods due to the carry forward of historical tax losses.

Profit/(loss) attributable to owners of the Target Business

Profit/(loss) attributable to owners of the Target Business for the years ended 30 June 2013, 2014 and 2015 and for the three months ended 30 September 2014 and 2015 were HK\$2.4 million, HK\$(239.0) million, HK\$26.3 million, HK\$9.0 million and HK\$3.6 million, respectively. The loss attributable to owners of the Target Business for the year ended 30 June 2014 was due to fixed assets impairment.

Financial position

Total assets of the Target Business were HK\$657.5 million, HK\$519.2 million, HK\$537.9 million and HK\$537.1 million as at 30 June 2013, 2014, 2015 and 30 September 2015, respectively.

Non-current assets

Non-current assets of the Target Business were HK\$538.1 million, HK\$354.3 million, HK\$398.8 million and HK\$397.4 million as at 30 June 2013, 2014, 2015 and 30 September 2015, respectively. The decrease in non-current assets of the Target Business as at 30 June 2014 as compared with that as at 30 June 2013 was mainly due to fixed assets impairment.

Non-current assets of the Target Business comprise mainly of property, plant and equipment and other receivables, prepayments and deposits.

Current assets

Current assets of the Target Business were HK\$119.4 million, HK\$164.9 million, HK\$139.1 million and HK\$139.7 million as at 30 June 2013, 2014, 2015 and 30 September 2015, respectively. It comprised mainly of trade and other receivables, prepayments and deposits and cash and cash equivalents.

Current assets increased by 38.1% for the year ended 30 June 2014 as compared to the year ended 30 June 2013 mainly due to an increase in cash and cash equivalents from the advance from NWTHL.

Current assets decreased by 15.7% for the year ended 30 June 2015 as compared to the year ended 30 June 2014 mainly due to a decrease in cash and cash equivalents from capital expenditure and decrease in accounts receivable.

Current assets increased by 0.4% as at 30 September 2015 as compared to the current assets as at 30 June 2015 mainly due to an increase in trade receivables and the prepayment of fixed assets maintenance, but it was partially offset by the decrease in cash and cash equivalents.

Liabilities

Total liabilities of the Target Business were HK\$2,629.6 million, HK\$2,730.2 million, HK\$2,722.6 million and HK\$2,718.3 million as at 30 June 2013, 2014, 2015 and 30 September 2015, respectively.

Total liabilities increased by 3.8% for the year ended 30 June 2014 as compared to the year ended 30 June 2013 due to an increase in the advance from NWTTL.

Total liabilities decreased by 0.3% for the year ended 30 June 2015 as compared to the year ended 30 June 2014 due to the decrease in trade payables.

Total liabilities decreased by 0.2% as at 30 September 2015 as compared to the total liabilities as at 30 June 2015. This was mainly due to the combined effect of the increase in trade payables and decrease in other payables, accrued charges, deposits received and deferred income.

2. CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Capital structure

As at 30 September 2015, the Target Group had total debts, excluding amount due to NWTTL and NWTTL's fellow subsidiaries and related companies, of approximately HK\$171.2 million and total cash and bank balance of approximately HK\$20.1 million with no external borrowings. Total shareholders' deficit was approximately HK\$2,181.2 million.

Cash resources

The Target Business's cash and cash equivalents (including short-term bank deposits) were HK\$15.0 million, HK\$52.7 million, HK\$41.8 million and HK\$20.1 million as at 30 June 2013, 2014 and 2015 and 30 September 2015, respectively, the majority of which are denominated in Hong Kong dollars.

The Target Business's net increase/(decrease) in cash and cash equivalents for the years ended 30 June 2013, 2014 and 2015 and for the three months ended 30 September 2015, were HK\$5.0 million, HK\$37.7 million, HK\$(10.9) million and HK\$(21.6) million, respectively. The Target Business's major outflows of funds during the relevant period were payments for the purchase of property, plant and equipment.

The Target Business had net cash generated from operating activities in the amount of HK\$20.0 million, HK\$65.5 million, HK\$60.0 million and HK\$(12.8) million, respectively for the years ended 30 June 2013, 2014 and 2015 and for the three months ended 30 September 2015. The negative cash generated from operating activities for the three months ended September 2015 is mainly driven by the timing difference of working capital.

The capital expenditures of the Target Business for the year ended 30 June 2013, 2014 and 2015 and the three months ended 30 September 2015 were HK\$124.1 million, HK\$120.3 million, HK\$103.7 million and HK\$8.8 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.

For the years ended 30 June 2013, 2014 and 2015 and the three months ended 30 September 2015, NWTHL provided advances amounting to HK\$119.0 million, HK\$129.0 million, HK\$13.0 million and nil, respectively.

The Target Business did not pay any dividends for the years ended 30 June 2013, 2014 and 2015, respectively.

Bank borrowings and facilities

During the relevant periods, apart from intra-group liabilities, normal trade payables and the short-term borrowings from NWTHL and related companies, the Target Business had no outstanding bank borrowings, mortgages, charges on assets, debentures, debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding borrowings or indebtedness in the nature of borrowings including term loans, bank overdrafts, liabilities under acceptances, acceptance credits, hire purchase and finance lease commitments or other similar indebtedness, or any guarantees or other material contingent liabilities.

3. RATIOS

The gearing ratio of Target Business is calculated as net debt divided by total equity. Net debt is calculated as total debt less cash and cash equivalents. Total equity is the combined capital and reserves as shown in the combined statements of financial position. The Target Business has historically been funded through short-term borrowings from NWTHL and related companies. The combined equity of the Target Business is in a net deficit position due to accumulated losses. Presentation of the gearing ratio of the Target Business is therefore not meaningful.

4. EMPLOYEE AND REMUNERATION POLICIES

The Target Business employed a total of 603, 557, 538 and 542 full-time employees as at 30 June 2013, 2014 and 2015 and 30 September 2015, respectively. Staff costs for the years ended 30 June 2013, 2014 and 2015 and for the three months ended 30 September 2014 and 2015 were HK\$160.6 million, HK\$169.2 million, HK\$171.0 million, HK\$44.0 million and HK\$43.9 million respectively. The Target Business operates a bonus plan to reward the staff on the basis of performance, and such remuneration policy is in line with prevailing market practice. The Target Business also provides training programs for its employees.

5. FOREIGN EXCHANGE EXPOSURE

The Target Business has transaction currency exposures. Such exposures primarily arise from transactions for receipts and payments for international telecommunications traffic and other purchases in currencies other than the Target Business's functional currency.

The Target Business manages this risk by having contracts denominated in Hong Kong and U.S. dollars where it is possible and economically favourable, and will continue to monitor such exposures and market conditions. Given the exchange rate of the HK\$ to the US\$ has remained close to the current pegged rate of HK\$7.80 = US\$1.00 since 1983, the Target Business does not expect significant foreign exchange gains or losses between the two currencies.

The Target Business did not engage in any hedging activities designed or intended to manage such exchange risk during the years ended 30 June 2013, 2014 and 2015 and for the three months ended 30 September 2015, respectively.

6. CONTINGENT ASSETS AND LIABILITIES

The Target Business did not have any contingent liabilities as at 30 June 2013, 2014 and 2015 and 30 September 2015.

7. ACQUISITION AND DISPOSAL AND SIGNIFICANT INVESTMENTS

During the years ended 30 June 2013, 2014, 2015, and for the three months ended 30 September 2014 and 2015, there were no material acquisitions and disposals of any subsidiaries, joint ventures and associated companies held by the Target Business.

During the years ended 30 June 2013, 2014, 2015, and for the three months ended 30 September 2014 and 2015, there were no significant investments held by the Target Business.

8. PROSPECTS AND OUTLOOK

As at 30 June 2013, 2014, 2015, the Target Business had capital commitments amounting to HK\$117.1 million, HK\$124.3 million and HK\$90.9 million, respectively. The commitments in each of the years are in respect of property, plant and equipment, the majority of which are telecommunication equipment. Save for combining and integrating the Target Business with the Company's existing telecommunications business following Closing, there are currently no significant future plans for the material investments or capital assets of the Target Business.

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP**

The following is the unaudited pro forma financial information of the Enlarged Group, being the Group together with the Target Companies and their subsidiaries (collectively the “Target Group”), as if the Acquisition had been completed on 31 August 2015 for the unaudited pro forma consolidated statement of assets and liabilities. Details of the Acquisition are set out in the section headed “Letter from the Board” contained in this circular.

The unaudited pro forma financial information of the Enlarged Group has been prepared in accordance with paragraph 4.29 of the Listing Rules and has been prepared by the Directors of the Company for the purpose of illustrating the effect of the Acquisition pursuant to the terms of the Share Purchase Agreement. The unaudited pro forma financial information was prepared based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as of the specified dates or any future date.

The unaudited pro forma financial information of the Enlarged Group is based upon: (i) the audited consolidated balance sheet of the Group as at 31 August 2015, which has been extracted from the Company’s annual report for the year ended 31 August 2015; (ii) the audited combined statement of financial position of the Target Business as at 30 September 2015 as set out in the accountant’s report of the Target Business in Appendix II to this circular, and adjusted on a pro forma basis to reflect the effect of the Acquisition. These pro forma adjustments are (i) directly attributable to the Acquisition and not relating to other future events or decisions and (ii) factually supportable.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group set out in the Company’s annual report for the year ended 31 August 2015, the accountant’s report on the financial information of the Target Business as set out in Appendix II to this circular and other financial information contained in this circular.

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**
**B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND
LIABILITIES**

	Consolidated statement of assets and liabilities of the Group as at 31 August 2015 HK\$'000	Combined statement of assets and liabilities of the Target Business as at 30 September 2015 HK\$'000	Pro forma adjustments				Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group HK\$'000
			Note 1 HK\$'000	Note 2 HK\$'000	Note 3 HK\$'000	Note 4 HK\$'000	
Assets							
Non-current assets							
Goodwill	1,594,110	—		279,226			1,873,336
Intangible assets	1,330,501	—					1,330,501
Fixed assets	1,969,803	395,044		55,540			2,420,387
Interests in joint ventures	9,893	—					9,893
Other non-current assets	19,503	2,323					21,826
	<u>4,923,810</u>	<u>397,367</u>		<u>334,766</u>			<u>5,655,943</u>
Current assets							
Inventories	14,373	—					14,373
Accounts receivable	81,685	79,144					160,829
Other receivables, deposits and prepayments	201,910	37,536					239,446
Amount due from a joint venture	329	—					329
Amounts due from NWTHL's group companies and related companies	—	2,918					2,918
Cash and cash equivalents	<u>328,950</u>	<u>20,149</u>		<u>(650,000)</u>	<u>686,000</u>	<u>(31,000)</u>	<u>354,099</u>
	<u>627,247</u>	<u>139,747</u>	<u>—</u>	<u>(650,000)</u>	<u>686,000</u>	<u>(31,000)</u>	<u>771,994</u>
Total assets	<u>5,551,057</u>	<u>537,114</u>	<u>—</u>	<u>(315,234)</u>	<u>686,000</u>	<u>(31,000)</u>	<u>6,427,937</u>

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	Consolidated statement of assets and liabilities of the Group as at 31 August 2015 HK\$'000	Combined statement of assets and liabilities of the Target Business as at 30 September 2015 HK\$'000	Pro forma adjustments				Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group HK\$'000
			Note 1 HK\$'000	Note 2 HK\$'000	Note 3 HK\$'000	Note 4 HK\$'000	
Liabilities							
Current liabilities							
Accounts payable	6,561	57,069					63,630
Other payables and accrued charges	217,394	114,089		50,000			381,483
Deposits received	33,385	—					33,385
Deferred services revenue							
- current portion	55,168	—					55,168
Obligations under granting of rights - current portion	9,024	—					9,024
Amount due to the former substantial shareholder	33,372	—					33,372
Amounts due to joint ventures	10,000	—					10,000
Amounts due to related parties of Target Group	—	2,547,107	(2,546,385)				722
Contingent consideration							
- current portion	2,457	—					2,457
Tax payable	121,222	—					121,222
	488,583	2,718,265	(2,546,385)	50,000	—	—	710,463
Non-current liabilities							
Derivative financial instrument	13,413	—					13,413
Deferred services revenue - long term portion	13,844	—					13,844
Obligations under granting of rights - long term portion	51,891	—					51,891
Deferred tax liabilities	438,916	—					438,916
Provision for reinstatement costs	11,334	—					11,334
Bank loan	3,018,889	—			686,000		3,704,889
	3,548,287	—	—	—	686,000	—	4,234,287
Total liabilities	4,036,870	2,718,265	(2,546,385)	50,000	686,000	—	4,944,750
Net assets/(deficit)	1,514,187	(2,181,151)	2,546,385	(365,234)	—	(31,000)	1,483,187

**C. NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF
ASSETS AND LIABILITIES**

- (1) The adjustment represents the capitalisation of the remaining shareholder debt owed by Concord to NWT HL on or prior to Closing in accordance with the inter-company debt arrangement as described in the “Letter from the Board” of this circular.
- (2) Upon the completion of the Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values as required by the acquisition method in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) 3 (Revised) “Business Combinations”.

For the purpose of the unaudited pro forma financial information of the Enlarged Group and for illustrative purpose only, the allocation of the purchase price is determined based on the carrying amount of the Target Group’s identifiable assets and liabilities as at 30 September 2015, after the capitalisation adjustment as mentioned in note 1 and an estimated fair value upward adjustment of HK\$55,540,000 on the Cornell Centre Property owned by the Target Group with estimated fair value and net book value of HK\$67,400,000 and HK\$11,860,000, respectively. The fair value of the Cornell Centre Property is based on the estimated market value of the Cornell Centre Property at 27 January 2016 as appraised by a third party valuer using the direct comparison method where comparison based on prices realised on actual sales of comparable property is made. As a result, except for the fair value upward adjustment on the Cornell Centre Property, the unaudited pro forma financial information does not include adjustments for the fair value of other identifiable assets and liabilities of the Target Group and recognition of additional intangible assets, if any.

Goodwill is estimated as follows:

	<i>HK\$’000</i>
Consideration — cash	650,000
Consideration — rebate amount	<u>50,000</u>
Total consideration	<u>700,000</u>
Carrying amount of the Target Group’s net deficit as at 30 September 2015	(2,181,151)
Estimated fair value upward adjustment on the Cornell Centre Property	55,540
Capitalisation adjustment (note 1)	<u>2,546,385</u>
	<u>420,774</u>
Goodwill	<u><u>279,226</u></u>

Pursuant to the terms of the Share Purchase Agreement, the total consideration for the Acquisition amounts to HK\$700,000,000, subject to the adjustments on external debt, cash and cash equivalents and working capital of the Target Group (“Consideration Adjustment”), as described in the “Letter from the Board” of this circular. Consideration amounting to HK\$650,000,000 will be settled in cash by the Group at the date of completion of the Acquisition, and the remaining part of the total consideration of HK\$50,000,000 will be settled by providing 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 and the Target Group in the period of four years following Closing, up to a maximum total rebate of HK\$50,000,000 as described in the “Letter from the Board” of this circular. For the purpose of the unaudited pro forma financial information of the Enlarged Group, the total consideration of HK\$700,000,000 does not include the Consideration Adjustment.

The amounts of goodwill and fair value of the identifiable assets and liabilities of the Target Group on the date of completion are subject to (i) the completion of the valuation of the fair value of the identifiable assets and liabilities of the Target Group on the date of completion and (ii) the financial position of the Target Group on the date of completion. In addition, intangible assets of the Target Group which were not otherwise recognised in the historical financial information may be recognised at their fair value upon completion of the Acquisition. Therefore, the amounts of goodwill, assets and liabilities of the Target Group may be materially different from the estimated amounts used in the preparation of the unaudited pro forma financial information presented above.

For the purpose of the unaudited pro forma financial information, the Directors have assessed whether there is any impairment indicator in respect of the goodwill expected to arise from the Acquisition following the principles set out in Hong Kong Accounting Standard 36 “Impairment of Assets”. Based on the Directors’ assessment, the Directors consider that there is no impairment indicator on the goodwill with assumed values set out above.

- (3) This adjustment represents the financing and settlement arrangement of the Acquisition. The Acquisition will be financed by a five-year bullet term loan facility up to HK\$700,000,000 underwritten by JPMorgan Chase Bank, N.A., Hong Kong Branch as described in the “Letter from the Board” of this circular. The adjustment amount represents the net amount of bank loan and the related transaction costs.
- (4) This adjustment represents the settlement of the estimated transaction costs for the Acquisition of approximately HK\$31,000,000 which are expensed as incurred.
- (5) No other adjustments have been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 August 2015 and 30 September 2015 respectively.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

1 March 2016

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF HKBN LTD.

We have completed our assurance engagement to report on the compilation of pro forma financial information of HKBN Ltd. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 August 2015 and related notes as set out in Part A to C of Appendix IV to the circular dated 1 March 2016 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A to C of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the 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 "Proposed Acquisition") on the Group's financial position as at 31 August 2015 as if the Proposed Acquisition had taken place at 31 August 2015. As part of this process, information about the Group's financial position as at 31 August 2015 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 August 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group, and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

KPMG

Certified Public Accountants

Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this circular or any statement herein misleading.

2. DISCLOSURE OF INTERESTS**(a) Interests and short positions of Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations**

As at the Latest Practicable Date, the Directors and chief executives of the Company had the following interests and short positions in the shares, underlying shares, and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules:

The table below sets out the aggregate long positions in the shares and underlying shares of the Company held by the Directors and chief executives of the Company:

Name of Director	Number of shares held	Number of underlying Shares held		Percentage of the issued share capital of the Company
		under equity derivatives ⁽¹⁾	Total number of shares held	
Bradley Jay Horwitz ⁽²⁾	100,000	—	100,000	0.01%
William Chu Kwong Yeung ⁽³⁾	26,199,298	238,608	26,437,906	2.63%
Ni Quiaque Lai ⁽⁴⁾	32,391,520	158,132	32,549,652	3.24%

Note:

- These represent the number of restricted share units which will be vested in such Directors under the Co-Ownership Plan II adopted by the Company on 21 February 2015.
- Mr. Bradley Jay Horwitz is personally interested in the 100,000 ordinary shares.

3. Among the 26,437,906 ordinary shares which Mr. William Chu Kwong Yeung are personally interested in, 238,608 restricted share units that were granted to him pursuant to the Co-Ownership Plan II adopted by the Company on 21 February 2015, which were subject to certain vesting conditions, remained unvested.
4. Among the 32,549,652 ordinary shares which Mr. Ni Quiaque Lai are personally interested in, 158,132 restricted share units that were granted to him pursuant to the Co-Ownership Plan II adopted by the Company on 21 February 2015, which were subject to certain vesting conditions, remained unvested.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Company had any interests or short positions in any shares, underlying shares, or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS REQUIRED TO BE DISCLOSED UNDER THE SFO

As at the Latest Practicable Date, so far as is known to the Directors and chief executives of the Company, the following persons (other than any Directors or chief executives of the Company) were substantial shareholders (as defined in the Listing Rules) of the Company or had interests or short positions in the shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered into the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Note	Number of ordinary shares beneficially held	Percentage of the issued share capital of the Company
Canada Pension Plan Investment Board	(a)	182,405,000	18.14%
GIC Private Limited	(b)	90,002,797	8.95%
The Capital Group Companies, Inc.	(c)	60,580,000	6.02%
JPMorgan Chase & Co.	(d)	59,927,465	5.96%
Mondrian Investment Partners Limited	(e)	58,460,500	5.81%
Matthews International Capital Management, LLC	(f)	51,130,000	5.08%

Note:

- (a) Canada Pension Plan Investment Board is the beneficial owner of the 182,405,000 ordinary shares of the Company.

- (b) The 90,002,797 ordinary shares are directly held by City-Scape Pte Ltd, which is wholly-owned by GIC (Ventures) Pte Ltd. GIC Special Investments Pte Ltd manages the investments of City-Scape Pte Ltd, and is wholly-owned by GIC Private Limited.
- (c) The 60,580,000 ordinary shares are directly held by Capital Research and Management Company, which is a direct wholly-owned subsidiary of The Capital Group Companies, Inc.. As such, The Capital Group Companies, Inc. is deemed to have the equity interests in the Company held by Capital Research and Management Company.
- (d) The 59,927,465 ordinary shares held by JP Morgan Chase & Co. are held as to 42,989,500 ordinary shares in the capacity of investment manager and 16,937,965 ordinary shares in the capacity of custodian corporation/approved lending agent.

JPMorgan Chase & Co. indirectly wholly-owns JPMorgan Asset Management Holdings Inc, which indirectly wholly-owns JPMorgan Asset Management (Asia) Inc. JPMorgan Asset Management (Taiwan) Limited, JF Asset Management Limited and JF International Management Inc. are all directly wholly-owned subsidiaries of JPMorgan Asset Management (Asia) Inc. and hold 1,392,500, 41,435,500 and 161,500 ordinary shares of the Company, respectively. As such, JPMorgan Chase & Co. is deemed to have the equity interests in the Company held by JPMorgan Asset Management (Taiwan) Limited, JF Asset Management Limited and JF International Management Inc.

The 16,937,965 ordinary shares are held by JPMorgan Chase Bank, N.A., which is a direct wholly-owned subsidiary of JPMorgan Chase & Co.

- (e) The 58,460,500 ordinary shares are held by Mondrian Investment Partners Limited in the capacity of investment manager.
- (f) The 51,130,000 ordinary shares are held by Matthews International Capital Management, LLC in the capacity of investment manager.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group (as a defendant).

5. COMPETING INTERESTS

During the period from the date on which the Company was listed on the Stock Exchange to the Latest Practicable Date, none of the Directors is considered to have an interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

6. MATERIAL INTERESTS IN CONTRACTS OR ARRANGEMENTS

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which was subsisting at the Latest Practicable Date and which was significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 August 2015 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by, or leased to, the any member of the Group, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group.

7. EXPERTS

The following are the qualifications of the experts (the “**Experts**”) who have given its opinion, letter or advice contained in this circular or whose name is otherwise referred to in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
KPMG	Certified Public Accountants

Each of the Experts did not have any shareholding (or holding of any other securities), directly or indirectly, in the Company or any other member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group as at the Latest Practicable Date.

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter and/or report or the references to its name in the form and context in which it appears.

As at the Latest Practicable Date, none of the Experts had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to, any member of the Group, or which was proposed to be acquired, or disposed of by, or leased to, any member of the Group since 31 August 2015 (being the date to which the latest published audited financial statements of the Company were made up).

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 August 2015 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

9. MATERIAL CONTRACTS

The Enlarged Group had entered into the following contracts (not being contracts entered into in the Enlarged Group’s ordinary course of business) within the two years preceding the Latest Practicable Date, which are or may be material:

- (a) the Hong Kong underwriting agreement dated 25 February 2015 and entered into among the Company, MLGHL, the Joint Global Coordinators, the Joint Sponsors, the Joint

Bookrunners and the Hong Kong Underwriters pursuant to which the Hong Kong Underwriters agreed severally to purchase or procure purchasers for their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering;

- (b) the reorganisation deed dated 17 February 2015 and entered into among MLHL, the MLHL Shareholders, Metropolitan Light Company Limited and the Company in relation to a reorganization of the shareholdings of the MLHL Shareholders in preparation for the initial public offering by the Company;
- (c) the cornerstone investment agreement dated 18 February 2015 and entered into among the Company, MLGHL, Canada Pension Plan Investment Board and the Joint Global Coordinators pursuant to which Canada Pension Plan Investment Board agreed to acquire from MLGHL at the Offer Price, such number of International Offer Shares which is equivalent to HK\$1,551,440,000, rounded down to the nearest whole board lot of 500 shares;
- (d) the lock-up deed dated 25 February 2015 and entered into among MLGHL, the Company and the Joint Global Coordinators pursuant to which MLGHL undertook to each of the Company and the Joint Global Coordinators certain lock-up undertakings in respect of its shareholding in the Company, details of which are set out in “Underwriting — Lock-up Arrangements” in the Prospectus;
- (e) the lock-up deed dated 25 February 2015 and entered into among City-Scape Pte. Ltd., the Company and the Join Global Coordinators pursuant to which City-Scape Pte. Ltd. undertook to each of the Company and the Joint Global Coordinators certain lock-up undertakings in respect of its shareholding in the Company, details of which are set out in “Underwriting — Lock-up Arrangements” in the Prospectus;
- (f) the lock-up deed dated 25 February 2015 and entered into among AlpInvest Co-Investments 2009 C.V. (as represented by its general partner, AlpInvest Partners 2009 B.V.), the Company and the Joint Global Coordinators pursuant to which AlpInvest Co-Investments 2009 C.V. undertook to each of the Company and the Joint Global Coordinators certain lock-up undertakings in respect of its shareholding in the Company, details of which are set out in “Underwriting — Lock-up Arrangements” in the Prospectus;
- (g) the lock-up deed dated 25 February 2015 and entered into among AlpInvest Co-Investments 2010 II C.V. (as represented by its general partner, AlpInvest Partners 2009 B.V.), the Company and the Joint Global Coordinators pursuant to which AlpInvest Co-Investments 2010 II C.V. undertook to each of the Company and the Joint Global Coordinators certain lock-up undertakings in respect of its shareholding in the Company, details of which are set out in “Underwriting — Lock-up Arrangements” in the Prospectus;

- (h) the lock-up deed dated 25 February 2015 and entered into among Mr. William Chu Kwong Yeung, Mr. Ni Quiaque Lai, the Company and the Joint Global Coordinators pursuant to which each of Mr. William Chu Kwong Yeung, Mr. Ni Quiaque Lai undertook to each of the Company and the Joint Global Coordinators certain lock-up undertakings in respect of their respective shareholding in the Company, details of which are set out in “Underwriting — Lock-up Arrangements” in the Prospectus;
- (i) the lock-up deed dated 25 February 2015 and entered into among the 79 Locked-up Co-Owners, the Company and the Joint Global Coordinators pursuant to which each of the 79 Locked-up Co-Owners undertook to each of the Company and the Joint Global Coordinators certain lock-up undertakings in respect of their respective shareholding in the Company, details of which are set out in “Underwriting — Lock-up Arrangements” in the Prospectus; and
- (j) the Share Purchase Agreement.

10. MISCELLANEOUS

- (1) The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company’s head office and principal place of business in Hong Kong is situated at 12th Floor, Trans Asia Centre, 18 Kin Hong Street, Kwai Chung, New Territories, Hong Kong.
- (2) The company secretary of the Company is Mr. Leung King Chiu. Mr. Leung is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Institute of Chartered Accountants in England and Wales (ICAEW).
- (3) The Company’s Hong Kong branch share registrar is Tricor Investor Services Limited, which has its office located at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (4) In the event of inconsistency, the English version of this circular shall prevail over the Chinese version.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the office of the Company at 12th Floor, Trans Asia Centre, 18 Kin Hong Street, Kwai Chung, New Territories, Hong Kong, on any weekday (except public holidays) up to and including the date of the EGM:

- (1) the memorandum and articles of association of the Company;
- (2) the annual report of the Company for the financial year ended 31 August 2015;
- (3) the Prospectus;

- (4) the Accountant's Report on the Target Business issued by PricewaterhouseCoopers, the text of which is set out in Appendix II to this circular, together with the associated statement of adjustments;
- (5) the report from KPMG in connection with the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (6) copies of each of the material contracts referred to in the section headed "Material Contracts" in this Appendix V; and
- (7) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



NOTICE IS HEREBY GIVEN that an extraordinary general meeting of HKBN Ltd. (the “Company”) will be held on Wednesday, 16 March 2016 at 10:00 a.m. at Awesome Space, 14th Floor, Trans Asia Centre, 18 Kin Hong Street, Kwai Chung, New Territories, Hong Kong for the purpose of considering and, if thought fit, passing (with or without amendments) the following ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

1. the purchase of the entire issued share capital in Concord Ideas Ltd. and Simple Click Investments Limited by HKBN Group Limited (“HKBNGL”), a subsidiary of the Company (the “Acquisition”), pursuant to the terms and conditions of the share purchase agreement dated 18 February 2016 between the Company, HKBNGL, New World Development Company Limited and New World Telephone Holdings Limited (the “Share Purchase Agreement”) be and is hereby approved;
2. the entry into of the Share Purchase Agreement by the Company and HKBNGL and the performance of their respective obligations under the Share Purchase Agreement be and are hereby approved, ratified and confirmed; and
3. the board of directors of the Company (or any committee established by the board) be and is hereby authorised to arrange for the execution of such documents and the taking of such actions by the Company or any of its subsidiaries as the board (or such committee) may consider necessary or desirable to be entered into or taken in connection with the Acquisition.”

By order of the board of
HKBN Ltd.
Bradley Jay Horwitz
Chairman

Hong Kong, 1 March 2016

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered Office:

P.O. Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

Principal place of business in Hong Kong:

12th Floor, Trans Asia Centre
18 Kin Hong Street
Kwai Chung
New Territories
Hong Kong

Notes:

1. A form of proxy for use at the extraordinary general meeting (or any adjournment thereof) of shareholders of the Company convened by the notice set out above (the “Meeting”) is enclosed with the Company’s shareholders’ circular dated 1 March 2016, of which the notice of the Meeting set out above is part.
2. Any member of the Company entitled to attend and vote at the Meeting may appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A member may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of the Company.
3. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share of the Company as if he/she/it were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof to the exclusion of the votes of the other joint holders.
4. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof or, in the case of a member which is a corporation, under its seal or the hand of an officer or attorney duly authorised, must be delivered to the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
5. Whether or not you propose to attend the Meeting in person, you are strongly urged to complete and return the form of proxy in accordance with the instructions printed thereon. Completion and return of the form of proxy will not preclude you from attending the Meeting and voting in person if you so wish. In the event that you attend the Meeting after having lodged the form of proxy, it will be deemed to have been revoked.