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HKBN Ltd.

香港寬頻有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1310)

PROPOSED ADOPTION OF THE CO-OWNERSHIP PLAN III PLUS TO REPLACE THE CO-OWNERSHIP PLAN III; SCHEME MANDATE TO ISSUE NEW SHARES UNDERLYING THE RSUS TO BE GRANTED UNDER THE CO-OWNERSHIP PLAN III PLUS; AND PROPOSED CONNECTED TRANSACTIONS INVOLVING THE POTENTIAL GRANT OF RSUS TO CONNECTED PARTICIPANTS

PROPOSED ADOPTION OF THE CO-OWNERSHIP PLAN III PLUS TO REPLACE THE CO-OWNERSHIP PLAN III

HKBN Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) refers to the co-ownership plan III, a restricted share unit scheme of the Company for its employees (the “**Talents**”), adopted by the Company and approved by shareholders of the Company at the annual general meeting convened on 15 December 2017 (the “**Co-Ownership Plan III**”) (details of such scheme were contained in the circular dated 16 November 2017 issued by the Company (the “**Circular**”). The Company also refers to the announcement issued by the Company on 30 April 2019 (the “**WTT Merger Announcement**”) with respect to the completion of the acquisition of the Company of the entire issued share capital in WTT Holding Corp (the “**WTT Merger**”).

As the WTT Merger constituted a very substantial acquisition of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), this in turn constituted a material event for which the board of directors (the “**Board**”) of the Company would have discretion to terminate the Co-Ownership Plan III. In view of the material impact of the WTT Merger on the Company and that the aspirational target of the adjusted available cash per share for distribution will be different for the enlarged group after completion of the WTT Merger, the Board would like to propose certain amendments to the features provided in the Co-Ownership Plan III and to adopt a new restricted share unit scheme for its Talents which incorporates such amended features (the “**Co-Ownership Plan III Plus**”) to replace the Co-Ownership Plan III. Accordingly, the Board resolved to terminate the Co-Ownership Plan III and to adopt the Co-Ownership Plan III Plus as a replacement and the Company will seek the requisite approval of its shareholders in a general meeting to approve the Co-Ownership Plan III Plus. As of the date of this announcement, no grant of restricted share unit has been made or awarded by the Company under the Co-Ownership Plan III since it became effective.

New Features of the Co-Ownership Plan III Plus

Save for the following key features, the features of the Co-Ownership Plan III Plus are substantially similar to those of the Co-Ownership Plan III.

- **Term:** Subject to any early termination of the Co-Ownership Plan III Plus in accordance with its rules, the proposed term of the Co-Ownership Plan III Plus is approximately 4 years from the date on which the Co-Ownership Plan III Plus becomes effective.
- **Eligible participants:** Persons who are eligible to participate in the Co-Ownership Plan III Plus are (i) an executive Director of the Company; or (ii) a Talent or consultant of the Company or any member of the Group that is of Point 3 grade or above and whose probation period (if applicable) has expired and who has not given a notice of resignation to any member of the Group or who has not been given a notice of termination of employment by any member of the Group (the “**Eligible Talents**”). As of the date of this announcement, there are approximately 1,000 Eligible Talents, representing approximately 22% of the total number of existing Talents of the Group, which include certain Eligible Talents of WTT Holding Corp after completion of the WTT Merger.
- **Purchase of shares by Eligible Talents:** The amount any Eligible Talent pays for the purchase of ordinary Shares of the Company (the “**Shares**”) on-market through the plan trustee must: (A) be equal to or exceed 1/6 of the annual remuneration of such Eligible Talent; and (B) be not more than two times the annual remuneration of such Eligible Talent.
- **Corporate social investment element:** HKBN Talent CSI Fund Limited, a charitable organisation (the “**Charitable Fund**”) will also participate in the Co-Ownership Plan III Plus, which is set up to support the Company’s core purpose of “*Make our Hong Kong a better place to live*” and to immerse Talents in a variety of corporate social investment projects.

Mr. Chu Kwong YEUNG and Mr. Ni Quiaque LAI as Executive Directors will donate a total of 4,000,000 Shares to the Charitable Fund. As a contribution to the Charitable Fund by the Company, the Co-Ownership Plan III Plus will reserve restricted share units (the “**RSUs**”) entitling the Charitable Fund to receive not more than 5,320,000 Award Shares under the terms of the Co-Ownership Plan III Plus (in line with the Rules of the Co-Ownership Plan III Plus). Any Eligible Talent may, at their own discretion, make contributions to the Charitable Fund by directing the plan trustee to transfer any part of their Award Shares (as defined below) receivable upon the vesting of the RSUs to the Charitable Fund.

- **Basis for determining number of RSUs:** The number of RSUs to be granted to a participant (including the Charitable Fund) will be determined by reference to the level of the adjusted available cash per share for distribution of the Company (the “**Adjusted Available Cash per Share for Distribution**”) achieved, on an aggregated basis, during the financial years of 2019, 2020 and 2021 of the Company pursuant to the Co-Ownership Plan III Plus. The Adjusted Available Cash per Share for Distribution is a pro forma amount determined based on the “Adjusted Free Cash Flow” in the Company’s latest published annual results in respect of a financial year, as adjusted by:
 - (i) excluding any non-cash accounting adjustment, loss, expense or cost arising from or in connection with the Co-Ownership Plan III Plus;

- (ii) excluding the principal investment amount or one-off financing or acquisition fee, cost or expense relating to or arising from the investment in or acquisition of real property (including but not limited to any office building or network operation centres) by the Group for self-use and in the normal line of business of the Group;
- (iii) excluding the transaction costs and expenses associated with any successful acquisition of companies or business by the Group; and
- (iv) adjusting the impact of any upfront transaction fees incurred for any debt financing (whether in the form of loan facility or issuance of debt securities) by the Group so that only the following items would affect the determination of the Adjusted Available Cash per Share for Distribution: (A) the annual amortised portion of such transaction fees (instead of the immediate cash outflow); and (B) any unamortised annual portion of such transaction fees which would need to be recognised on an accelerated basis as a result of any re-financing or early repayment or redemption arrangement,

and then divided by the sum of Shares in issue and Shares that are issuable by the Company pursuant to the exercise of convertible or exchangeable instruments or rights or option to subscribe for Shares (excluding those granted under any employee incentive plan), as reflected on the date of publication of the Company's annual results for such financial year.

If the Adjusted Available Cash per Share for Distribution, on a cumulative basis, over the 2019, 2020 and 2021 financial years of the Company reaches HK\$3.03, RSUs will be granted on the basis that the participants under the Co-Ownership Plan III Plus would be granted with 1.33 RSUs for every purchased Share that is purchased by the plan trustee on behalf of the participants, and the participants would, subject to the satisfaction of the vesting conditions and on the vesting date, receive one new Share for every RSU that it is granted. A cumulated Adjusted Available Cash per Share for Distribution in excess of HK\$3.03 will not give rise to any further entitlement. If the Adjusted Available Cash per Share for Distribution, on a cumulative basis, over the 2019, 2020 and 2021 financial years of the Company reaches a value in excess of HK\$2.53 and below HK\$3.03, RSUs will be granted to the participants under the Co-Ownership Plan III Plus on a pro-rata basis, and the number of RSUs to be granted will be determined on a linear scale between zero RSU and 1.33 RSUs for every purchased Share that is purchased by the plan trustee on behalf of the participants (with more RSUs to be granted the closer the actual achieved level is to HK\$3.03).

Based on the above description, purely as a reference point, the Adjusted Available Cash per Share for Distribution for the financial year ended 31 August 2018 amounted to HK\$0.57.

One RSU entitles the grantee to receive upon vesting one new Share in the share capital of the Company (the “**Award Shares**”). If the cumulated Adjusted Available Cash per Share for Distribution of the Company reaches HK\$3.03 during the term of the Co-Ownership Plan III Plus, the participants would receive 1.33 new Shares for every purchased Share upon vesting of the RSU.

- **Early termination:** If the Board resolves to early terminate the Co-Ownership Plan III Plus upon the occurrence of an M&A event, the targeted level of the cumulative Adjusted Available Cash per Share for Distribution required to be achieved by the Company for the granting of RSUs is (depending on the time when such M&A event occurs) HK\$0.81, HK\$1.82 and HK\$3.03 at the end of the 2019, 2020 and 2021 financial years of the Company respectively. In general, the number of RSUs to be granted would be calculated on a pro-rata basis by reference to the maximum entitlement at HK\$3.03. Provided that the relevant minimum level of the cumulative Adjusted Available Cash per Share for Distribution prior to the termination of the Co-Ownership Plan III Plus is met, the number of RSUs granted will be determined on a linear scale, with more RSUs to be granted the closer the actual achieved level is to the cumulative target for the relevant financial year ^(Note 1). No RSUs will be granted if an M&A event occurs during the 2019 financial year. M&A event means any transaction by the Group which constitutes a major transaction, very substantial acquisition or very substantial disposal of the Company (such terms having the meaning given to them in Chapter 14 of the Listing Rules). For the avoidance of doubt, upon the occurrence of an M&A event, the Board may decide to allow the Co-Ownership Plan III Plus to continue without any changes to its terms.

Note 1:

	Adjusted Available Cash per Share for Distribution (HK\$)		
	2019 financial year	2020 financial year	2021 financial year
Cumulative minimum amount for receiving grant of RSUs if the scheme is terminated early pursuant to an M&A event	0.71	1.52	2.53
Cumulative target	0.81	1.82	3.03

- **Scheme mandate limit:** The total maximum number of new Shares that may underlie the RSUs to be granted pursuant to the Co-Ownership Plan III Plus is 3% of the Shares (on a fully diluted basis) on the day of the general meeting (as may be adjusted in the event of a reorganisation in capital structure of the Company) convened to approve the Co-Ownership Plan III Plus (the “**Scheme Mandate Limit**”).
- **Over-subscription of the scheme:** If the total intended investment amount of the Eligible Talents will result in the purchase of Shares exceeding the maximum number of Shares available for purchase by all Eligible Talents (i.e. the Scheme Mandate Limit taking into account the maximum number of Shares underlying the RSUs already granted pursuant to the Co-Ownership Plan III Plus and deducting 5,320,000 Award Shares reserved for making award to the Charitable Fund), the allocation for the purchase of Shares shall be determined in the following priority:
 - (a) to satisfy the investment amounts of Eligible Talents up to 12 months of the annual remuneration of each such Eligible Talent (excluding the Executive Directors), and the entitlement of each such Eligible Talent shall be determined on a pro-rata basis as amongst all such Eligible Talents;

- (b) to satisfy the investment amounts of those who have become Eligible Talents of the Group on or prior to 31 August 2018 up to the remaining unsatisfied investment amounts of such Eligible Talents (excluding the Executive Directors), determined on a pro-rata basis;
 - (c) to satisfy the investment amounts of those who have become Eligible Talents of the Group after 31 August 2018 up to the remaining unsatisfied investment amounts of such Eligible Talents (excluding the Executive Directors), determined on a pro-rata basis; and
 - (d) to satisfy the investment amounts of the Executive Directors on a pro-rata basis.
- **RSU grant date:** RSUs will be granted to participants (including the Charitable Fund) on the date of publication of the Company's annual results for the 2021 financial year if the minimum level of the cumulative Adjusted Available Cash per Share for Distribution (namely, HK\$2.53) is achieved. The granting of the RSUs will occur earlier than the date of publication of the annual results of the Company for the 2021 financial year if the maximum targeted cumulative Adjusted Available Cash per Share for Distribution (namely, HK\$3.03) is achieved prior to the end of the 2021 financial year.

If the minimum level of the cumulative Adjusted Available Cash per Share for Distribution is not met, no RSUs will be granted and accordingly, no new Shares will be allotted and issued.

- **Vesting of the RSUs and issuance of the Award Shares:** Vesting of the RSUs granted should occur one year from the RSU grant date subject to the satisfaction of the following vesting conditions:
 - (i) the average closing share price of the Shares for each of the 60 trading days of the Stock Exchange which immediately precedes the vesting date is greater than HK\$9.27; and
 - (ii) the cumulative capital expenditure of the Group during the 2019, 2020 and 2021 financial years is not less than HK\$1.6 billion (provided that the annual capital expenditure of the Group during each financial year is not less than HK\$400 million). The capital expenditure for the 2019 financial year shall be the aggregate of the capital expenditures of HKBN Ltd. and WTT Holding Corp as separate companies prior to the consolidation of WTT Holding Corp into the Group on 30 April 2019.

The Company will allot and issue, upon the satisfaction of the above vesting conditions, the Award Shares to the participants (including the Charitable Fund) under the Co-Ownership Plan III Plus on the vesting date. The total number of Award Shares that are issuable to the participants (including the Charitable Fund) shall be the Scheme Mandate Limit.

Conditions for the effectiveness of the Co-Ownership Plan III Plus

The effectiveness of the Co-Ownership Plan III Plus is subject to:

- (a) the passing of a resolution by the independent shareholders of the Company at a general meeting to approve the adoption of the Co-Ownership Plan III Plus and to grant a specific mandate to the Directors to allot and issue ordinary Shares of the Company under the Co-Ownership Plan III Plus up to 3% of the total number of issued Shares (on a fully diluted basis) as at the date of the general meeting of the Company at which the adoption of the Co-Ownership Plan III Plus is approved (as may be adjusted in the event of a reorganisation of capital structure of the Company), which may underlie the RSUs to be granted pursuant to the Co-Ownership Plan III Plus (the “**Scheme Mandate**”); and
- (b) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the approval for the listing of, and permission to deal in, all the new Shares which may be allotted and issued under the Scheme Mandate.

As of the date of this announcement, the number of the total issued Shares is 1,311,599,356, and the number of the total issued Shares assuming the full conversion of the Vendor Loan Notes (as defined in the WTT Merger Announcement) is 1,478,921,568. If the Scheme Mandate is utilised to the fullest extent, 44,367,647 new Shares will be issued and will represent approximately 2.91% of the total issued Shares as enlarged by and immediately following the full conversion of the Vendor Loan Notes (as defined in the WTT Merger Announcement), the full utilisation of the Scheme Mandate and issue of the Award Shares underlying the RSUs to be granted under the Co-Ownership Plan III Plus, assuming no other Shares will be issued or repurchased by the Company from the date of this announcement and until such full utilisation of the Scheme Mandate.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the new Shares which may be allotted and issued under the Scheme Mandate and underlie the RSUs to be granted pursuant to the Co-Ownership Plan III Plus.

Upon the Co-Ownership Plan III Plus taking effect, the Co-Ownership Plan III will be terminated.

PROPOSED CONNECTED TRANSACTIONS INVOLVING THE POTENTIAL GRANT OF RSUS TO CONNECTED PARTICIPANTS UNDER CO-OWNERSHIP PLAN III PLUS

A director or chief executive of the Company or a director or chief executive of any of its subsidiaries eligible to participate in the Co-Ownership Plan III Plus is a connected participant (the “**Connected Participant**”). As of the date of this announcement, there are 2 Executive Directors of the Company and 6 directors of the Company’s subsidiaries who are Connected Participants ^(Note 2). The Connected Participants are also included as eligible participants under the Co-Ownership Plan III Plus as they are, in terms of their executive or management position with the Group, also of an internal grading of Point 3 or above. As the Connected Participants are connected persons of the Company, the granting of any RSU to the Connected Participants under the Co-Ownership Plan III Plus will constitute connected transactions of the Company under Chapter 14A of the Listing Rules. The participation of the Connected Participants in the Co-Ownership Plan III Plus and the grant of RSUs to the Connected Participants will be subject to, among others, the approval by the independent shareholders of the Company at the general meeting convened to approve the Co-Ownership Plan III Plus. Assuming that (i) all the Connected Participants will agree to

participate, and do participate, in the Co-Ownership Plan III Plus to the fullest extent; (ii) all conditions to the grant of the RSUs are satisfied and the maximum entitlements to the RSUs will be granted; and (iii) all the Connected Participants become grantees of RSUs and are vested with the Award Shares upon satisfaction of the vesting conditions, and on the basis of the 3% limit by reference to the number of the total issued Shares as of the date of this announcement, the maximum number of Award Shares that will be awarded to the Connected Participants is 5,856,590 in total. Please note that the potential grant of RSUs and issue and allotment of Award Shares to the Connected Participants would vary depending on the deviations from the assumptions stated above.

Note 2: The Connected Participants comprise 2 Executive Directors of the Company, namely Mr. Chu Kwong YEUNG and Mr. Ni Quiaque LAI, and 6 directors of the Company's subsidiaries, namely Mr. Tak Wa William YEUNG, Mr. Yue Kit Andrew WONG, Ms. Yan Fen LIU, Ms. Wing Sze CHAN, Ms. Wai Han Stella YU and Ms. Li Li DAI.

INFORMATION ABOUT THE GROUP

The Group is principally engaged in the provision of residential high speed fibre broadband (symmetrical 100Mbps to 1,000Mbps) services, and is a fast-growing enterprise solutions provider. The Group offers a wide range of telecommunications solutions for residential and enterprise markets, encompassing broadband, Wi-Fi, mobile, cloud solutions, data connectivity, data facilities, system integration and voice communications. Through partnerships with Over-The-Top (“OTT”) content service providers, the Group also offers OTT entertainment to the market.

IMPLICATIONS UNDER THE LISTING RULES

The Co-Ownership Plan III Plus does not constitute a share option scheme under Chapter 17 of the Listing Rules. In order for the Connected Participants to participate in the Co-Ownership Plan III Plus, the Company is required to comply with the reporting, announcement, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will seek its independent shareholders' approval at a general meeting of the Company for the adoption of the Co-Ownership Plan III Plus, the grant of the Scheme Mandate and the grant of RSUs to the Connected Participants.

The Directors (other than the Independent Non-executive Directors whose view will be set out in the Letter from the Independent Board Committee of the circular to be despatched to the shareholders) are of the view that the terms of the Co-Ownership Plan III Plus, the Scheme Mandate and the grant of RSUs to the Connected Participants are fair and reasonable and in the interests of the Company and its shareholders as a whole.

As the Executive Directors are eligible participants under the proposed Co-Ownership Plan III Plus, Mr. Chu Kwong YEUNG and Mr. Ni Quiaque LAI have abstained from voting on the relevant board resolutions of the Company approving the proposed adoption of the Co-Ownership Plan III Plus.

DESPATCH OF CIRCULAR

A circular of the Company containing, among other things, further details of the Co-Ownership Plan III Plus and the Scheme Mandate and a notice convening the general meeting will be despatched to the shareholders as soon as practicable.

WARNING: The information above represents only a summary of certain proposed terms of the Co-Ownership Plan III Plus, including the proposed bases for determining whether the respective conditions for the granting and vesting of the RSUs are satisfied. They do not represent a forecast or projection of the Company's share price, future performance, cash flow or profitability. As the adoption of the Co-Ownership Plan III Plus is subject to approval by the independent shareholders of the Company, the Co-Ownership Plan III Plus may or may not be implemented and such bases for granting and vesting may or may not materialise. Accordingly, shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

By order of the Board
HKBN Ltd.
Bradley Jay HORWITZ
Chairman

Hong Kong, 21 June 2019

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

Executive Directors

Mr. Chu Kwong YEUNG
Mr. Ni Quiaque LAI

Independent Non-executive Directors

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

Non-executive Directors

Ms. Deborah Keiko ORIDA
Mr. Zubin Jamshed IRANI
Mr. Teck Chien KONG

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