HKT Annual Report 2011

Stock Code: 6823

A new chapter of continued success

HKT - a PCCW Group member

PCCW®

CONTENTS

CORPORATE PROFILE

HKT is Hong Kong's premier telecommunications service provider. It meets the needs of the Hong Kong public and local and international businesses with a wide range of services including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sale, outsourcing, consulting, and contact centers.

Together with the highly successful media business of its parent company, PCCW Limited, HKT offers innovative media content and services across the PCCW Group's unique quadruple-play platforms – fixed-line, broadband Internet access, TV and mobile.

Employing approximately 15,300 staff, HKT is headquartered in Hong Kong and maintains a presence in mainland China as well as other parts of the world.

The share stapled units of the HKT Trust and HKT Limited are listed on The Stock Exchange of Hong Kong Limited (SEHK: 6823).

SIGNIFICANT EVENTS IN 2011

FEBRUARY

PCCW Global's efficiency and competitive position in the international connectivity services market are further enhanced with the completion of the business integration with Reach.

MARCH

HKT becomes the first Wi-Fi service provider on the trains of the Guangzhou-Kowloon Through Train, allowing travelers to enjoy high-speed wireless broadband connectivity during the journey.

MAY

HKT's free Wi-Fi service is extended to 158 public rental housing estates, benefiting around 2 million residents.

PCCW Global provides a turnkey video and media broadcast solution to Home2US Communications for its global expansion.

JUNE

HKT begins a massive TV and print advertising campaign to promote our real fiber home broadband service.

RoamSave, a smartphone application which can help avoid expensive voice roaming charges while traveling abroad, is made available to PCCW mobile customers.

AUGUST

Genius Brand, a joint venture in which HKT holds a 50% interest, appoints Huawei to deploy one of the biggest and best Long Term Evolution (LTE) networks in Hong Kong.

HKT launches a cloud-based multimedia storage service, uHub, enabling customers to upload and download music, photos, videos, as well as documents for immediate enjoyment or use via a personal computer or a handheld device.

PCCW Global and INTERNEXA announce their agreement to interconnect their Ethernet networks for providing unprecedented Ethernet connectivity in South and Central America. PCCW Global has also signed other network interconnection agreements during the year.

OCTOBER

PCCW shareholders approve the spin-off and separate listing of HKT on the Hong Kong stock exchange at an extraordinary general meeting.

NOVEMBER

The global offering of the share stapled units of the HKT Trust and HKT Limited opens on November 16.

HKT is successfully listed on November 29. Group Managing Director Alex Arena officiates at the listing ceremony of HKT held at the Hong Kong stock exchange.

HKT launches Hong Kong's first cloud-based health data management service, eSmartHealth, through which customers can easily upload, store and access their health data anytime via cloud computing technology.

DECEMBER

HKT introduces a new model of eye which combines an indoor wireless phone, a multimedia player, and infotainment and interactive features in a single home smart device.

The volunteers of HKT and its parent company, PCCW, are recognized in the Social Welfare Department's highest service hour awards for their community service.

AWARDS

Award	Awardee	Scheme organizer
Best China Contact Call Center Awards		The China Federation of IT Promotion
Best China Call Center	PCCW Teleservices	
Best China Call Center for Individual Customers		
Best China Outsourcing Customer Contact Center of the Year (Inbound)	PCCW Teleservices	51Callcenter
Best of IT Awards		PC Market
My Favourite Local Broadband Service Provider	NETVIGATOR	
Best Service Partner Award		Hong Kong Internet Registration Corporation Limited
Service Partner of the Year 2011	HKT	
CAPITAL Best of the Best for Executives Award 2011		CAPITAL
Mobile Operator	PCCW mobile	
11th CAPITAL Outstanding Enterprise Awards		CAPITAL
The Best Fixed-line Service Company	HKT	
Computerworld HK Awards 2011		Computerworld Hong Kong
Best Data and Telecom Services Provider	Commercial Group	
Best Managed Security Services		
Best Corporate Mobile Services Provider		
eBrand Awards 2011		e-Zone
The Best of Residential Broadband Service	NETVIGATOR	
The Best of Mobile Broadband Service	PCCW mobile	
Elite Awards 2010		Ming Pao Weekly
The Best Broadband Service Provider	NETVIGATOR	
e-Trend Award 2010		Ming Pao
Top ten e-Trend Products	PCCW Wi-Fi	
Excellent Services Brand Award		Sing Tao Daily
Internet Service Provider	NETVIGATOR	
7th Hong Kong & Macau Merchants Quality and Integrity Award	PCCW Shops	Guangzhou Daily
Hong Kong Proud Brand Award		Ming Pao
Hong Kong Consumer Grand Award – Internet Service	NETVIGATOR	
Hong Kong Service Awards		East Week
The Best Internet Service Provider	NETVIGATOR	
The Best IDD Service Provider	IDD 0060	
HK White Collar's Mobile Favorite Brands Awards 2011		Focus Media
Most Favorite Mobile Operator Award	PCCW mobile	
Mystery Caller Assessment Award		Hong Kong Call Centre Association
Silver	PCCW Teleservices	

Award	Awardee	Scheme organizer
Outsourced Contact Centre of the Year (Inbound) Annual Hong Kong Call Centre Association Awards: Gold	PCCW Teleservices	Hong Kong Call Centre Association
The Outstanding Corporate Strategy Awards 2011	NETVIGATOR	East Week
2011 Outstanding QTS Merchant Award Bronze Award	PCCW Shops	Quality Tourism Services Association
QTS Merchant 10-year QTS Merchant Recognition	PCCW Shops	Quality Tourism Services Association
Service & Courtesy Award 2011	One PCCW Shops staff member	Hong Kong Retail Management Association
SMB World Awards 2011 Best SMB Partner (Technology) Best Corporate Mobile Service Provider Best Business Broadband Service Provider	Commercial Group	SMB World
Telecoms World Awards Middle East 2011 Best International Wholesale Carrier	PCCW Global	Terrapinn
Top 50 Teleservices Agency 7th place in the Domestic Outbound category 3rd place in the International Inbound category 2nd place in the Interactive Inbound category 5th largest provider on the global aggregate ranking	PCCW Teleservices	Customer Interaction Solutions
Top Service Awards 2011 Best Internet Service Provider	NETVIGATOR	Next Magazine
TOUCH Brands 2011	NETVIGATOR PCCW mobile	East Touch
Trusted Brands 2011 Telecommunications category: Gold Award	HKT	Reader's Digest
Vibrant Star of Retail and Service Industry 2011 Vibrant Star Merit Award	One PCCW Shops staff member	Job Finder
Yahoo! Emotive Brand Awards 2010-2011 Mobile/Internet Service	NETVIGATOR	Yahoo!

STATEMENT FROM THE CHAIRMAN

It is my great pleasure to present the first annual report statement as Chairman of HKT Limited and HKT Management Limited, trustee-manager of the HKT Trust.

The listing of the share stapled units of the HKT Trust and HKT Limited in November 2011 on the Main Board of the Hong Kong stock exchange signified a new chapter for our telecommunications services. First of all, on behalf of the boards I would like to thank the HKT unitholders for their trust and confidence in our business and the management. I would also like to express our gratitude to the staff of HKT and parent company PCCW Limited for making the landmark listing possible – all amid a global investment sentiment that was marred by uncertainties surrounding the U.S. economy and the unresolved European debt crisis.

HKT is Hong Kong's premier telecommunications service provider. It has served Hong Kong people and local and international businesses so well for more than 80 years. Despite the unstable global environment, by virtue of its leading network capability, product innovation ability and attention to customer service HKT stands to continue to benefit from the healthy local economic conditions as well as opportunities that may arise elsewhere.

The 2011 performance of our various lines of business was testament to HKT's extraordinary attributes.

There was an impressive increase in the number of customers signing up for our PON (passive optical network) high-speed broadband upon the full rollout of the service. The high-growth area of mobile data trended further up in the second half of last year. In addition, the fixed-line business enjoyed an increase in the number of families which upgraded to the eye multimedia home smart device.

Telecommunications services for the commercial and public sectors grew strongly on the back of the local economic growth. International connectivity business also performed well and is poised to benefit from the increasing demand and PCCW Global's successful effort in establishing more interconnection partnerships around the world.

The separately listed HKT remains an integral part of the PCCW Group. We will work closely in particular with the PCCW Group's media business to ensure customers have a unique quadruple-play experience when using HKT's fixed-line, broadband and mobile services, which in turn will drive profitability of our businesses. The boards are committed to maximizing the value to the holders of the HKT share stapled units.

Richard Li
Chairman
February 27, 2012

STATEMENT FROM THE GROUP MANAGING DIRECTOR

HKT became separately listed on The Stock Exchange of Hong Kong Limited in November 2011. The successful listing in the form of share stapled units of HKT Limited and the HKT Trust was unprecedented in the local securities market. We are particularly proud of this achievement because investors cast a vote of confidence in HKT when the general market environment was difficult and the outlook uncertain.

There are good reasons for the market's support of HKT. For more than 80 years, HKT has proven to be a reliable telecommunications service provider for Hong Kong people and a trustworthy partner of businesses, whether they are small-sized or medium-sized companies, or multinational enterprises. We have amassed decades of experience and expertise, and we are capable of aptly responding to the changing market and regulatory environment, as well as catering to the evolving needs of customers.

The listing not only made Hong Kong capital market history; more importantly, it has also opened a new chapter for HKT, in which we expect to achieve greater accomplishments based on success of the past. We must now strive to become an even stronger market leader in providing the highest quality telecom services and to deliver the best customer experience.

FULL ROLLOUT OF FIBER SERVICE

In 2011, we made significant progress in all key areas of operations because of the effective execution of our business plans. We decided to roll out our high-speed fiber broadband service on a wider scale to meet the demand for super-fast and reliable fixed broadband service.

HKT's NETVIGATOR service offers real fiber broadband – our FTTH (fiber-to-the-home) coverage has been extended to nearly two-thirds of all Hong Kong households, meaning that FTTH service, supporting up to 1Gbps speed, can be provided to these households within four days of receiving an order. With the mass launch campaign, the customer base more than doubled in the second half of last year.

Meanwhile, we also saw a rapid growth in customer take-up of NETVIGATOR's other high-speed broadband services. Our proposition has been to offer a range of speeds and mobility to customers. HKT has the largest Wi-Fi network in Hong Kong. More than 9,500 Wi-Fi hotspots – many with fiber backhaul and therefore offering up to 100 Mbps speed – are located throughout the territory in convenience stores, coffee shops, telephone kiosks, etc. HKT is also the only operator providing Wi-Fi service at key locations in the MTR system.

HKT further distinguishes itself in value-added services. Last August, we launched uHub, HKT's own brand of cloud-based multimedia storage with secure servers located in Hong Kong and powered by our advanced fiber infrastructure, giving users a most direct, speedy and cost-effective connection for uploading and retrieving their personal files. A customer may have up to 50GB of storage space and can access files via a personal computer or a handheld device whether indoor or outdoor. uHub can be accessed using iPhone, iPad, or Android-based phones and tablets, so customers may switch devices anytime. As with other popular HKT services, uHub has quickly caught on with customers and records a satisfactory subscription rate and high usage.

Last November, we also introduced Hong Kong's first cloud-based health data management service, eSmartHealth, to help customers keep track of health data and that of their family members. Users may upload health data recorded by devices such as pedometers, blood pressure or heart rate monitors, and store and access the data via a personal computer and, in future, our eye home smart device.

ATTRACTING QUALITY MOBILE CUSTOMERS

HKT leads the market with its unparalleled integrated network strength. Last year, we completed the modernization and expansion of our entire mobile network, significantly enhancing the utilization of available spectrum. The all IP-based core and transmission networks now use state-of-the-art technology and equipment to serve both data and voice needs of customers. The more efficient infrastructure reduces costs of operation and maintenance, yet ensures improved resilience, reliability and performance.

Following a strong 2011 first-half growth, the mobile business continued to exhibit a remarkable forward momentum to round up the year with a double-digit growth in revenue. Our customer base is characterized by an increasing proportion of smartphone users with higher spending, in line with our strategy to attract more quality customers.

Towards the end of last year, we promoted a new mobile data plan with a pre-set data usage cap at 5GB, which is more than adequate for the vast majority of our smartphone customers based on their usage patterns. In addition, our mobile service customers may connect to HKT's extensive Wi-Fi coverage, at no extra charge, given the seamless auto-connect feature. This simple, hassle-free plan has been well received by customers, and our friendly mobile apps have gone a long way of enabling customers to manage their data usage. The "My Account Check" application enables customers to find out their current usage and set up for alerts. Because service will not continue beyond the pre-set data volume unless the customer specifically consents, there will be no question of bill shock, hitherto a common consumer concern. On the other hand, customers may choose to raise their data limit in any particular month by topping up, so they can flexibly control their expenditure – also a source of incremental revenue for the company.

HKT will continue to develop applications to satisfy the appetite of smart gadget users and offer practical value. In 2011, we launched RoamSave, a simple solution with which customers travelling abroad can make and receive voice calls as if they were in Hong Kong – and at very low cost.

INCREASING eye PENETRATION

The fixed-line business was on the whole steady in 2011, while there were clear signs in the second half of an increasing number of customers upgrading to the eye home smart device. The eye subscriber base surged by 75% in 2011 when compared to a year ago. The higher ARPU and the greater customer stickiness as a result of the eye upgrades have been instrumental in stabilizing the performance of the segment. In fact, the number of residential lines at the end of 2011 increased slightly from a year before.

eye is HKT's trump card in revitalizing the largely saturated fixed-line segment. To give customers the best experience, we constantly roll out new models of the multimedia device to incorporate more features. The more recent models are loaded with apps from the Android market.

Customers can also mirror on the eye subscribed channels of now TV, which is run by PCCW Limited, parent company of HKT. The media content of the PCCW Group and HKT's delivery platforms of fixed lines, broadband and mobile combine to form a unique quadruple-play experience for our customers.

COMMERCIAL BUSINESS BUOYED BY LOCAL ECONOMIC GROWTH

HKT's commercial telecom business was satisfactory in 2011. While the market became more cautious in the second half in light of the uncertain economic outlook in 2012, there was no significant adverse impact on investments regarding telecom services.

Local voice line number grew strongly to a record level, benefitting from the booming retail and tourism-related sectors and in general the sustained local economic recovery. Despite intense competition, there was steady growth in broadband lines – including PON – as well as overall growth in local data business because of increasing connectivity demand driven in part by more widespread use of cloud applications.

Last year also saw a double-digit jump in the number of small-sized and medium-sized enterprises that have taken up our one communications integrated telecom platform, which offers office telephone line, broadband connection, mobile service, telephone systems and advanced unified communications features.

Customer premises equipment sale performed well given a steady stream of telecom infrastructure projects in the year. Projects relating to cloud computer and data centers are likely to continue despite the uncertain economic prospect in 2012.

Outside of Hong Kong, the customer bases of our teleservices business grew in mainland China and the Philippines, while a number of existing customers increased their activities. New sizeable contracts gained last year are expected to bring significant business benefits in 2012.

CUTTING-EDGE TECHNOLOGY FOR GLOBAL CONNECTIVITY

International voice and data business continued to grow in 2011, riding on PCCW Global's unparalleled interconnection partnership with operators all around the world, including the growth areas of EMEA (Europe, Middle East and Africa). During the year, PCCW Global further increased its MPLS and Ethernet ICI partners and expanded coverage to reach 1,600 cities in more than 120 countries. These interconnects can meet the most exacting requirements of multinational enterprises wherever they may be located.

Last year, we completed the integration of businesses and assets from Reach Ltd, resulting in greater operational efficiencies and long-term benefits.

In early 2012, PCCW Global announced adoption of network specialist Ciena Corporation's industry-leading coherent optical 100G networking solutions in upgrading the capacity of the RNAL Cable System. This will help PCCW Global meet growing demand from its wholesale and retail customers for high-bandwidth services and applications.

PCCW Global is an early adopter in Asia of the advanced technology. PCCW Global will light a ring of dark fiber on the RNAL Cable System so that it can support significantly more than its original design capacity. The network will deliver path-resilient ring capacity and interconnectivity with other regional and transpacific submarine cable systems terminating in or transiting through the most popular Asian traffic hubs in Hong Kong, South Korea, Japan and Taiwan.

A NEW CHAPTER OF CONTINUED SUCCESS

Though separately listed, HKT remains a core part of the PCCW Group and will continue to benefit from the synergies that can be created with the other exciting businesses of its parent company. Furthermore, US$1 billion from the proceeds of the HKT listing was used to pay down some of HKT's debt. This stronger financial position after substantial deleveraging will allow HKT to pursue further growth of, and investment in its well-established businesses.

We believe the mobile segment is a particularly exciting prospect. It is our intention to develop our mobile business aggressively in 2012 to earn an even more prominent market position in Hong Kong. Our DC-HSPA+ network currently provides one of the fastest data speeds in the market, and we plan to officially launch our LTE service delivering speeds of up to 100 Mbps when there is a wider choice of LTE-capable mobile devices in the first half of 2012.

HKT's fixed broadband service with real fiber connectivity has in the past months attracted a large number of customers – both new customers and existing ones for upgrade – and there are encouraging signs of the continuation of this trend. We will further expand our FTTH coverage while at the same time deploying multiple technologies to serve the customers' varying needs for high-speed broadband connectivity.

In 2012, our international connectivity business will likely face a global economic environment that is fraught with challenges. However, PCCW Global has the advantages of an advanced infrastructure backbone, diversity of revenue profile, and a global multi-cultural team of top professionals. We are confident that the business can identify appropriate opportunities and buck adverse economic conditions.

HKT's management and employees will work together to achieve a common objective – to take this company to a higher level in terms of network capability, product innovation and customer service. In doing so we believe we can create the best experience for our customers. Our ultimate goal is to maximize the value of the investments of the holders of the share stapled units of HKT Limited and the HKT Trust while providing our customers with unmatched services.

Alex Arena
Group Managing Director
February 27, 2012

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard
Executive Chairman

Mr Li, aged 45, was appointed the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Executive Committee and a member of the Nomination Committee of the Board. Mr Li has also been an Executive Director and the Chairman of PCCW Limited (PCCW) since August 1999, the Chairman of PCCW's Executive Committee and a member of the Nomination Committee of the board of directors of PCCW. He is also the Chairman and Chief Executive of the Pacific Century Group, an Executive Director and the Chairman of Pacific Century Premium Developments Limited (PCPD), Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, and Chairman of Singapore-based Pacific Century Regional Developments Limited.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited. He is also a member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

Alexander Anthony ARENA
Group Managing Director

Mr Arena, aged 60, has been the Group Managing Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. He is also a member of HKT's Executive Committee. Mr Arena is primarily responsible for the overall corporate management, planning, operation and development of the Group. Mr Arena is also a Non-Executive Director of Pacific Century Regional Developments Limited. Prior to the spin-off and separate listing of HKT, Mr Arena was an Executive Director of PCCW Limited (PCCW) from August 1999 to November 2011 and the Group Managing Director of PCCW from April 2007 to November 2011. He was also the Group Chief Financial Officer of PCCW from June 2002 to April 2007. Mr Arena was also the Deputy Chairman of PCCW's Executive Committee, a member of PCCW's Regulatory Compliance Committee, an Executive Director and Deputy Chairman of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee prior to November 2011.

Prior to joining the Pacific Century Group in 1998, Mr Arena was a Special Policy Adviser to the Hong Kong Government from 1997 to 1998. From 1993 to 1997, he was the Director-General of Telecommunications at the Office of the Telecommunications Authority (OFTA) of Hong Kong, as well as a member of the Broadcasting Authority of Hong Kong.

Before taking up his post at OFTA, Mr Arena was appointed by the Hong Kong Government to plan a reform program for the liberalization of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he served as an inaugural member of the Australian Telecommunications Authority for four years. Mr Arena has led an extensive career in public administration, specializing in high technology and infrastructure industries. From a practicing radio/communications engineer to a public policy maker, his experience spans such diverse areas as commercialization of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

Mr Arena completed a bachelor's degree in electrical engineering from the University of New South Wales, Australia in 1972 and graduated in 1973. He completed an MBA at the University of Melbourne, Australia in 1977 and graduated in 1978. He has been a Fellow of the Hong Kong Institution of Engineers since 2001.

HUI Hon Hing, Susanna
Group Chief Financial Officer

Ms Hui, aged 47, has been the Group Chief Financial Officer of HKT Limited (HKT) and an Executive Director of HKT and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. She is also a member of HKT's Executive Committee. Ms Hui is primarily responsible for overseeing the financial matters of the Group. Ms Hui is and has been the Group Chief Financial Officer of PCCW Limited (PCCW) since April 2007 and an Executive Director of PCCW since May 2010. She is also a member of PCCW's Executive Committee. Prior to her appointment as the Group Chief Financial Officer of PCCW, she was the Director of Group Finance of the PCCW Group from September 2006 to April 2007, and the Director of Finance of the PCCW Group with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was also the Chief Financial Officer of Pacific Century Premium Developments Limited from July 2009 to November 2011.

Prior to joining Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999, Ms Hui was the chief financial officer of a listed company engaged in hotel and property investment and management.

Ms Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

NON-EXECUTIVE DIRECTORS

Peter Anthony ALLEN

Non-Executive Director

Mr Allen, aged 56, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is the Group Managing Director of Pacific Century Regional Developments Limited and an Executive Director and the Chief Financial Officer of the Pacific Century Group. Mr Allen was an Executive Director of PCCW Limited from August 1999 to November 2011.

Prior to joining the Pacific Century Group, Mr Allen joined KPMG in 1976 before taking up an appointment at Occidental International Oil Incorporated in 1980. In 1983, he joined Schlumberger Limited and worked in various countries holding key management positions. In 1989, he moved to Singapore as Regional Financial Director of the Vestey Group.

Mr Allen joined Boustead Singapore Limited as the Group Operations Controller in 1992 before taking up an appointment with Morgan Grenfell Investment Management (Asia) Limited as a Director and Chief Operating Officer in 1995. He joined the Pacific Century Group in 1997.

Mr Allen was educated in England and graduated from the University of Sussex with a degree in economics. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow Member of CPA Australia and a Fellow of the Institute of Certified Public Accountants of Singapore.

CHUNG Cho Yee, Mico

Non-Executive Director

Mr Chung, aged 51, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. Mr Chung was a Non-Executive Director of PCCW Limited (PCCW) from May 2010 to November 2011. He was an Executive Director of PCCW from November 1996 who was responsible for merger and acquisition activities and was re-designated to a Non-Executive Director of PCCW in May 2010. He joined the Pacific Century Group in March 1999.

Mr Chung graduated from University College, University of London in the United Kingdom, with a law degree in 1983.

Mr Chung is currently the Chairman and an Executive Director of CSI Properties Limited which he joined in 2004. He is also an Independent Non-Executive Director of HKC (Holdings) Limited. He was an Independent Non-Executive Director of CIAM Group Limited between March 9, 2001 and May 31, 2008.

LU Yimin

Non-Executive Director

Mr Lu, aged 48, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is a member of HKT's Remuneration Committee, Nomination Committee, Regulatory Compliance Committee and Executive Committee of the Board. Mr Lu became a Non-Executive Director of PCCW Limited (PCCW) in May 2008 and the Deputy Chairman of the board of directors of PCCW in November 2011. He is a member of PCCW's Executive Committee.

Mr Lu is an Executive Director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a Director and President of China United Network Communications Limited and a Director and President of China United Network Communications Corporation Limited.

Mr Lu joined China Network Communications Group Corporation (CNC) in December 2007, serving as senior management. Prior to joining CNC, Mr Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005.

Mr Lu is a researcher level senior engineer and has extensive experience in government administration and business management. He graduated from Shanghai Jiao Tong University in 1985 with a bachelor's degree in computer science and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University in the United States.

LI Fushen

Non-Executive Director

Mr Li, aged 49, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. Mr Li became a Non-Executive Director of PCCW Limited (PCCW) in July 2007. He is a member of the Nomination Committee of the board of directors of PCCW.

\# *For identification only*

Mr Li is an Executive Director and Chief Financial Officer of China Unicom (Hong Kong) Limited (Unicom HK). He is Vice President and Chief Accountant of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a Director of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited.

He served as a Senior Vice President of Unicom HK from February 2009 to March 2011. He served as an Executive Director of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since January 2007 and as Chief Financial Officer of CNC HK since September 2005. He served as Joint Company Secretary of CNC HK from December 2006 to March 2008. Since October 2005, he has served as Chief Accountant of China Network Communications Group Corporation (CNC). From October 2003 to August 2005, he served as General Manager of the Finance Department of CNC. From November 2001 to October 2003, he served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company.

Mr Li graduated from the Australian National University with a master's degree in management in 2004, and from the Jilin Engineering Institute with a degree in engineering management in 1988. Mr Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

*For identification only

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor CHANG Hsin Kang, FREng, GBS, JP

Independent Non-Executive Director

Professor Chang, aged 71, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is also a member of HKT's Audit Committee, Remuneration Committee, Nomination Committee and Regulatory Compliance Committee, and a member of the Trustee-Manager's Audit Committee. Professor Chang was an Independent Non-Executive Director of PCCW Limited from October 2000 to November 2011.

Professor Chang became a Tsinghua University (Honorary Professor and) Wei Lun Senior Visiting Scholar in September 2007, and (Honorary Professor and) Yeh-Lu Xun Chair Professor at Peking University in February 2008. He was the President and University Professor of City University of Hong Kong from 1996 to 2007. Prior to that, he was the Dean of the School of Engineering at the University of Pittsburgh in the United States from 1994 to 1996, Founding Dean of the School of Engineering at Hong Kong University of Science and Technology from 1990 to 1994 and the Chairperson of the Department of Biomedical Engineering at the University of Southern California in the United States from 1985 to 1990.

Professor Chang serves as a member of the National Committee of the Chinese People's Political Consultative Conference. He is a Foreign Member of the Royal Academy of Engineering of the United Kingdom, a Member of International Eurasian Academy of Sciences; and Chevalier dans l'Ordre National de la Lègion d'Honneur as well as Commandeur dans l'Ordre des Palmes Acadèmiques of France. He was appointed Justice of the Peace in July 1999 and awarded the Gold Bauhinia Star by the Hong Kong Government in July 2002.

Professor Chang obtained his bachelor's degree in civil engineering from the National Taiwan University, a master's degree in structural engineering from Stanford University in the United States and a doctorate in fluid mechanics and biomedical engineering from Northwestern University in the United States.

Professor Chang is also an Independent Non-Executive Director of Hon Kwok Land Investment Company, Limited, Brightoil Petroleum (Holdings) Limited and Nanyang Commercial Bank, Limited.

Sir Rogerio (Roger) Hyndman LOBO, CBE, LLD, JP

Independent Non-Executive Director

Sir Roger, aged 88, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of both HKT's Regulatory Compliance Committee and Nomination Committee, a member of HKT's Audit Committee and Remuneration Committee, and a member of the Trustee-Manager's Audit Committee. Sir Roger was an Independent Non-Executive Director of PCCW Limited from August 1999 to November 2011.

Sir Roger is also a Director of several organizations, including Shun Tak Holdings Limited, Johnson & Johnson (HK) Ltd., Kjeldsen & Co. (HK) Ltd., Pictet (Asia) Limited and Melco International Development Limited.

Sir Roger's extensive record of public service includes membership of the Hong Kong Housing Authority, the Urban Council, the Executive Council and serving as a senior member of the Legislative Council. Sir Roger served as Commissioner of the Civil Aid Service, Chairman of the Hong Kong Broadcasting Authority, Chairman of the Advisory Committee on Post-retirement Employment and also served as Advisory Committee Chairman, Complaints Committee Member and Corruption Prevention Advisory Committee Member of Independent Commission Against Corruption.

Sir Roger currently serves as Chairman (Board of Trustees) of the Vision 2047 Foundation, Vice Patron of the Community Chest of Hong Kong and The Society of Rehabilitation and Crime Prevention, Hong Kong, Advisory Board Member of the Hong Kong Aids Foundation, Member of the Board of Trustees of Business and Professionals Federation of Hong Kong, and Council Member of Caritas Hong Kong.

Sir Roger has received several awards and honors from the British Crown and the Vatican.

The Hon Raymond George Hardenbergh SEITZ

Independent Non-Executive Director

Mr Seitz, aged 71, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Remuneration Committee and a member of HKT's Audit Committee and the Trustee-Manager's Audit Committee. Mr Seitz was an Independent Non-Executive Director of PCCW Limited (PCCW) from February 2005 to November 2011. He was a Non-Executive Director of PCCW from October 2000 and was re-designated as an Independent Non-Executive Director in February 2005.

Mr Seitz was Vice-Chairman of Lehman Brothers International from April 1995 to April 2003 and was United States Ambassador to Great Britain from 1991 to 1994. Prior to that, Mr Seitz acted as the United States Assistant Secretary of State for Europe from 1989 to 1991 and Minister at the United States Embassy in London from 1984 to 1989. He was Non-Executive Chairman and a member of the Special Committee of Sun-Times Media Group, Inc. from July 2003 to January 2009.

Sunil VARMA

Independent Non-Executive Director

Mr Varma, aged 68, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is also the Chairman of both HKT's Audit Committee and the Trustee-Manager's Audit Committee and a member of HKT's Nomination Committee.

Mr Varma is a certified chartered accountant as well as a cost and management accountant. He has extensive working experience of over 40 years including with Price Waterhouse Management Consultants and the IBM Consulting Group, specializing in management and business-problem consulting. He was the partner responsible for establishing and developing the Price Waterhouse consulting practice in Indonesia and was the Head of the Price Waterhouse consulting practice in Hong Kong until 1994. Mr Varma was the Vice President and Principal responsible for the IBM Consulting Group in India between 1996 and 1998. He was the Interim Chief Financial Officer and Managing Director of Asia Online, Ltd. from 1999 to 2000 and was the Interim Chief Financial Officer of HCL – Perot Systems in India in 2003.

Mr Varma had previously worked in a number of countries in Africa and the Asia Pacific region including Australia, India, Indonesia, Hong Kong, Thailand and the PRC. He advised large multinationals as well as domestic companies in the areas of corporate governance, financial management, organizational strengthening, efficiency improvement, process re-engineering and business systems. He is experienced in a cross-section of industries including financial services, information technology, energy, fertilizers and steel. He had previously conducted several large assignments for public sector organizations, funded by World Bank, Asian Development Bank and other multi-lateral funding agencies.

Mr Varma is also a Director and the Chairman of Audit Committee of various companies in India including International Asset Reconstruction Company Pvt. Ltd., Shriram City Union Finance Ltd., Vistaar Livelihood Finance Pvt. Ltd. as well as a Director and a member of the Audit Committee of Shriram EPC Ltd. in India.

Mr Varma obtained his Bachelor of Arts degree in mathematics and economics from Punjab University in July 1962. He has been an Associate member of the Institute of Chartered Accountants of India since August 1966 and a Fellow since June 1972, and an associate member of the Institute of Cost and Management Accountants of India since September 1975.

COMBINED CORPORATE GOVERNANCE REPORT

The board of directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) (the "Trustee-Manager Board") and the board of directors of HKT Limited (the "Company") (the "Company Board") present the first corporate governance report of the HKT Trust and the Company on a combined basis for the year ended December 31, 2011.

The HKT Trust is a trust constituted on November 7, 2011 under the laws of Hong Kong and managed by the Trustee-Manager. The HKT Trust, the Trustee-Manager and the Company are committed to establishing and maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that their affairs are conducted in accordance with applicable laws and regulations.

We have adopted a Corporate Responsibility Policy and a Corporate Social Responsibility Policy that apply to all employees, including directors and officers, of the Company and its subsidiaries (collectively the "HKT Limited Group").

The Corporate Responsibility Policy sets out standards for the way in which employees should conduct the HKT Limited Group's business in the following areas: civic responsibilities, equal opportunities, preservation of company information and property, privacy of personal data, prevention of bribery, conflicts of interest and ensuring health and safety at work. This policy also describes procedures to enable employees to raise concerns with management and directors on a confidential basis.

The Corporate Social Responsibility Policy sets out standards for the way in which the HKT Limited Group should conduct its business to enhance its positive contribution to society and the environment.

CORPORATE GOVERNANCE PRACTICES

The HKT Trust and the Company are both listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and are both subject to the provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The HKT Trust is not a separate legal entity, and can only act through the Trustee-Manager.

Pursuant to the Deed of Trust constituting the HKT Trust dated November 7, 2011 (the "Trust Deed"), (i) the Trustee-Manager shall be responsible for compliance by the HKT Trust with the Listing Rules applicable to the HKT Trust and other relevant rules and regulations; (ii) the Company shall be responsible for compliance by the Company with the Listing Rules applicable to the Company and other relevant rules and regulations; and (iii) each of the Trustee-Manager and the Company must co-operate with each other to ensure that each party complies with the Listing Rules obligations and to co-ordinate disclosure to the Stock Exchange.

The HKT Trust and the Company have adopted the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules as the corporate governance code of the HKT Trust and the Company. The HKT Trust and the Company have applied the principles and complied with all relevant code provisions of the CG Code for the period from the listing of the share stapled units (the "Share Stapled Units") jointly issued by the HKT Trust and the Company on November 29, 2011 (the "Listing Date") to December 31, 2011 (the "Review Period"). Code Provision B.1 of the CG Code requiring the establishment of a Remuneration Committee is not relevant to the Trustee-Manager as its directors are not entitled to any remuneration under the Trust Deed, and therefore has not been complied with. In addition, given the unique circumstances of the HKT Trust i.e., the fact that the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals, the establishment of a separate Nomination Committee for the Trustee-Manager as required by the new Code Provision A.5.1, effective from April 1, 2012, is also not relevant to the Trustee-Manager, and therefore will not be complied with.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The HKT Trust and the Company have adopted the standard required by the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules and established a code of conduct regarding securities transactions by directors, senior management and relevant employees as defined in the CG Code, namely the HKT Trust and HKT Limited Code of Conduct for Securities Transactions by Directors, Senior Management and Nominated Persons (the "HKT Code"), in terms no less exacting than the required standard indicated by the Model Code.

Having made specific inquiries of all directors of the Trustee-Manager and the Company, confirmations have been received of compliance with the required standard set out in the Model Code and the HKT Code during the Review Period.

The interests and short positions of the directors of the Trustee-Manager and the directors and chief executive of the Company in the Share Stapled Units and the shares, underlying shares and debentures of the Company and its associated corporations have been disclosed in the Combined Report of the Directors on pages 32 to 53 of this annual report.

BOARDS OF DIRECTORS

Pursuant to the Trust Deed, the directors of the Trustee-Manager shall at all times comprise the same individuals who serve as directors of the Company; no person shall serve as a director of the Trustee-Manager unless he also serves as a director of the Company at the same time; and no person shall serve as a director of the Company unless he also serves as a director of the Trustee-Manager at the same time.

The Company Board is responsible for the management of the Company. Key responsibilities include formulation of the overall strategies of the HKT Limited Group, the setting of management targets and supervision of management performance. The Company Board confines itself to making broad policy decisions and exercising a number of reserved powers as mentioned below, delegating responsibility for more detailed considerations to the Company's Executive Committee under the leadership of the Company's Executive Chairman:

- those functions and matters as set out in the terms of reference of various committees (as amended from time to time) for which Company Board approval must be sought from time to time;
- those functions and matters for which Company Board approval must be sought in accordance with the HKT Limited Group's internal policy (as amended from time to time);
- consideration and approval of the HKT Limited Group's financial statements in the interim and annual reports of the Company and the HKT Trust, and announcements of interim and annual results;
- consideration of dividend policy and dividend amounts; and
- monitoring of the corporate governance of the HKT Limited Group in order to comply with applicable rules and regulations.

The Trustee-Manager Board is responsible for the administration of the HKT Trust (including but not limited to the safe custody of all the property and rights of any kind whatsoever which are held on trust for the registered holders of Share Stapled Units (the "Trust Property")). Key responsibilities include taking all reasonable steps to ensure that the Trustee-Manager discharges its duties under the Trust Deed, ensuring that the Trust Property is properly accounted for, and being answerable to the registered holders of units of the HKT Trust for the application or misapplication of any Trust Property. The Trustee-Manager Board confines itself to making broad policy decisions and exercising a number of reserved powers as below:

- those functions and matters as set out in the terms of reference of various committees (where applicable) (as amended from time to time) for which Trustee-Manager Board approval must be sought from time to time;
- consideration and approval of the financial statements of the HKT Trust and the Trustee-Manager in the interim and annual reports of the HKT Trust, and announcements of interim and annual results;
- consideration of distributions to registered holders of Share Stapled Units; and
- monitoring of the corporate governance of the HKT Trust in order to comply with applicable rules and regulations.

The Executive Chairman of the Company is Li Tzar Kai, Richard and the Group Managing Director of the Company is Alexander Anthony Arena. The role of the Executive Chairman is separate from that of the Group Managing Director. The Executive Chairman is responsible for overseeing the function of the Company Board while the Group Managing Director is responsible for managing the business of the Company. Details of the composition of the Company Board and the Trustee-Manager Board have been set out in the Combined Report of the Directors on pages 32 to 53 of this annual report.

All directors of the Company and the Trustee-Manager have full and timely access to all relevant information, including regular reports from the various Company Board committees and Trustee-Manager Board committee(s) and briefings on significant legal, regulatory or accounting issues affecting the HKT Limited Group and the HKT Trust respectively. Directors may take independent professional advice, which will be paid for by the Company or the Trustee-Manager, as appropriate.

The directors of the Company and the Trustee-Manager acknowledge their responsibility for preparing the financial statements of, respectively, the Company and the HKT Trust and the Trustee-Manager for each financial year, which give a true and fair view of the state of affairs of the HKT Limited Group and the HKT Trust and the Trustee-Manager (as the case may be), and of the profit and cash flows of the HKT Limited Group and the HKT Trust and the Trustee-Manager (as the case may be), for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2011, the directors of the Company and the Trustee-Manager have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; stated the reasons for any significant departure from applicable accounting standards in Hong Kong; and have prepared the financial statements on a going-concern basis. The directors of the Company and the Trustee-Manager are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of, respectively, the HKT Limited Group and the HKT Trust and the Trustee-Manager. The statements of the external auditor relating to its reporting responsibilities on the financial statements of the HKT Limited Group and the HKT Trust, and the Trustee-Manager are respectively set out in the Independent Auditor's Reports on pages 54 to 55 and 137 to 138 of this annual report.

BOARDS OF DIRECTORS *(CONTINUED)*

As at the date of this report, each of the Company Board and the Trustee-Manager Board is comprised of 11 directors including three executive directors, four non-executive directors and four independent non-executive directors. At least one-third of the Company Board and the Trustee-Manager Board are independent non-executive directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. Biographies of all the directors of the Company and the Trustee-Manager have been set out on pages 10 to 13 of this annual report. The relationships (including financial, business, family or other material or relevant relationships) among members of the Company Board and the Trustee-Manager Board have also been disclosed in the Combined Report of the Directors of this annual report.

The Company and the Trustee-Manager have arranged appropriate directors and officers liability insurance cover for their directors and officers.

Biographies of senior management (including the senior corporate executives and heads of business units) of the HKT Limited Group as at the date of this report are available on the Company's website (www.hkt.com).

Since the CG Code only became effective on the Listing Date of November 29, 2011, the Company Board and the Trustee-Manager Board respectively each held one meeting during the period from the Listing Date to December 31, 2011. As the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company and the Audit Committee of the Trustee-Manager were established with effect from the Listing Date, no meetings were held by any such committees during the Review Period. Furthermore, no annual general meeting of the registered holders of the Share Stapled Units was held during the Review Period. The first meeting of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company and the Audit Committee of the Trustee-Manager was held after the Review Period on February 27, 2012.

The attendance of individual directors at Company Board and Company Board committee meetings (if any) and Trustee-Manager Board and Trustee-Manager Board committee meeting(s) (if any) held during the period from the Listing Date to December 31, 2011 is set out in the following table:

	Meetings attended/held in 2011 *(Note 1)*					
	Company				Trustee-Manager	
	Board	Audit Committee *(Note 2)*	Nomination Committee *(Note 2)*	Remuneration Committee *(Note 2)*	Board	Audit Committee *(Note 3)*
Executive Directors						
Li Tzar Kai, Richard *(Executive Chairman)*	1/1	N/A	Note 4	N/A	1/1	N/A
Alexander Anthony Arena *(Group Managing Director)*	1/1	N/A	N/A	N/A	1/1	N/A
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*	1/1	N/A	N/A	N/A	1/1	N/A
Non-Executive Directors						
Peter Anthony Allen	1/1	N/A	N/A	N/A	1/1	N/A
Chung Cho Yee, Mico	0/1	N/A	N/A	N/A	0/1	N/A
Lu Yimin	1/1	N/A	Note 4	Note 4	1/1	N/A
Li Fushen	1/1	N/A	N/A	N/A	1/1	N/A
Independent Non-Executive Directors						
Professor Chang Hsin Kang	1/1	Note 4	Note 4	Note 4	1/1	Note 4
Sir Rogerio (Roger) Hyndman Lobo *(Chairman of the Company's Nomination Committee)*	1/1	Note 4	Note 4	Note 4	1/1	Note 4
The Hon Raymond George Hardenbergh Seitz *(Chairman of the Company's Remuneration Committee)*	1/1	Note 4	N/A	Note 4	1/1	Note 4
Sunil Varma *(Chairman of the Audit Committee of the Company and the Trustee-Manager)*	1/1	Note 4	Note 4	N/A	1/1	Note 4

Notes

1. Directors may attend meetings in person or by means of telephone or other audio communications equipment or by their alternate directors in accordance with the Company's Amended and Restated Articles of Association (the "Company Articles") and the Trustee-Manager's Articles of Association.

2. For the composition of the Audit Committee, Nomination Committee and Remuneration Committee of the Company, please refer to the section headed "**Committees of the Company Board**" in this Combined Corporate Governance Report.

3. For the composition of the Audit Committee of the Trustee-Manager, please refer to the section headed "**Committee of the Trustee-Manager Board**" in this Combined Corporate Governance Report.

4. No meetings were held by such committees during the Review Period.

BOARDS OF DIRECTORS *(CONTINUED)*

The Company and the HKT Trust together have received from each of their independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and consider that all four independent non-executive directors as at the date of this report, namely, Professor Chang Hsin Kang, Sir Rogerio (Roger) Hyndman Lobo, The Hon Raymond George Hardenbergh Seitz and Sunil Varma are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules. Please also refer to the details disclosed in the section headed "**Independent Non-Executive Directors**" in the Combined Report of the Directors of this annual report.

According to the Company Articles, the Company Board has power from time to time and at any time, subject to the provisions of the Company Articles, to appoint any person as a director either to fill a casual vacancy or as an addition to the Company Board. In addition, according to the Company Articles, at each annual general meeting of the Company no less than one-third of the directors for the time being shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Company Articles, each non-executive director has a term of three years commencing from the Listing Date. Under the Trust Deed, the directors of the Trustee-Manager must be the same individuals who serve as directors of the Company at the relevant time; no person shall serve as a director of the Trustee-Manager unless he also serves as a director of the Company at the same time; and the office of a director of the Trustee-Manager shall be vacated if the relevant person ceases to be a director of the Company. These provisions are also contained in the Articles of Association of the Trustee-Manager. Accordingly, the retirement by rotation provisions are also applicable, indirectly, in relation to the Trustee-Manager Board. Therefore, no director of either the Company or the Trustee-Manager will remain in office for a term of more than three years. Details of the directors who shall retire from office of both the Company and the Trustee-Manager at the forthcoming annual general meeting have been set out in the Combined Report of the Directors on pages 32 to 53 of this annual report.

COMMITTEES OF THE COMPANY BOARD

The Company Board has established the following committees with defined terms of reference: the Remuneration Committee, the Nomination Committee, the Audit Committee and the Regulatory Compliance Committee. The terms of reference of the Remuneration Committee, the Nomination Committee and the Audit Committee are of no less exacting terms than those set out in the CG Code. To further reinforce its independence, the Audit Committee has been structured to only include independent non-executive directors, and the Nomination Committee, the Regulatory Compliance Committee and the Remuneration Committee have been structured to include a majority of independent non-executive directors.

Executive Committee and Sub-committees

The Company Board established the Executive Committee with effect from the Listing Date. The Executive Committee operates as a general management committee with overall delegated authority from the Company Board. The Executive Committee determines HKT Limited Group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee reports through the Executive Chairman to the Company Board.

The Executive Committee comprises four members, including three executive directors and one non-executive director.

The members of the Executive Committee are:
Li Tzar Kai, Richard *(Chairman)*
Alexander Anthony Arena
Hui Hon Hing, Susanna
Lu Yimin

Reporting to the Executive Committee are sub-committees comprising executive and non-executive directors and members of senior management who oversee all key operating and functional areas within the HKT Limited Group. Each sub-committee has defined terms of reference covering its authority and duties, meets frequently and reports to the Executive Committee on a regular basis.

The *Finance and Management Committee* was established with effect from the Listing Date. This committee is chaired by the Group Managing Director and meets on a regular basis to review management and strategic matters across the HKT Limited Group and to set overall financial objectives and policies.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Executive Committee and Sub-committees *(continued)*

The *Operational Committee* was established with effect from the Listing Date. This committee is chaired by the Group Managing Director and meets on a regular basis to direct all of the business units/operations within the HKT Limited Group.

The *Controls and Compliance Committee*, which reports to the Finance and Management Committee, was established with effect from the Listing Date. It comprises senior members of the Company's Group Finance, Group Legal, Corporate Secretariat, Group Communications, Group Internal Audit and Risk Management departments. The committee reviews procedures for the preparation of the Company's and the HKT Trust's annual and interim reports and the corporate policies of the HKT Limited Group from time to time to ensure compliance with the various rules and obligations imposed under the Listing Rules.

The *Corporate Social Responsibility Committee*, which reports to the Finance and Management Committee, was established with effect from the Listing Date known as the "Social Responsibility Committee" and renamed to the "Corporate Social Responsibility Committee" on February 27, 2012. It comprises senior members of the Company's Group Communications, Group Human Resources, Corporate Secretariat, Group Finance, Risk Management, Network Planning and Group Purchasing and Supplies departments, as well as management from individual business units. The committee ensures that the Company operates in a manner that enhances its positive contribution to society and the environment.

The *PRC Business Development Committee* was established with effect from the Listing Date to advise on possible opportunities for expanding the HKT Limited Group's operations in the PRC and monitoring the use of funds allocated and approved by the Company Board or relevant committee for PRC opportunities.

Remuneration Committee

The Company Board established the Remuneration Committee with effect from the Listing Date. The primary objective of the Remuneration Committee is to ensure that the Company is able to attract, retain and motivate high-caliber employees who will underpin the success of the Company and enhance the value of the Company for the benefit of the registered holders of Share Stapled Units. The Remuneration Committee is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of directors and senior management of the Company and other members of the HKT Limited Group. In addition, the committee provides effective supervision and administration of the Company's Share Stapled Units option schemes, as well as other Share Stapled Unit incentive schemes. The committee's authority and duties are set out in written terms of reference that are posted on the Company's website. This committee comprises four members, the majority of whom are independent non-executive directors, and is chaired by an independent non-executive director.

The members of the Remuneration Committee are:
The Hon Raymond George Hardenbergh Seitz *(Chairman)*
Professor Chang Hsin Kang
Sir Rogerio (Roger) Hyndman Lobo
Lu Yimin

The objective of the Company's remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Company Board, market rates and factors such as each director's workload, responsibility and job complexity are taken into account.
The following factors are considered when determining the remuneration packages of directors and senior management of the Company and its subsidiaries:

- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;
- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

During the review process, no individual director is involved in decisions relating to his own remuneration.

Emoluments of each director of the Company for 2011 have been reviewed by the Remuneration Committee at its first meeting held after the Review Period on February 27, 2012. Details of emoluments of each director have been set out in the consolidated financial statements of the HKT Trust and the Company on pages 90 and 91 of this annual report.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Nomination Committee

The Company Board established the Nomination Committee with effect from the Listing Date. The primary duties of the Nomination Committee are to make recommendations to the Company Board on the appointment and re-appointment of directors, structure, size and composition of the Company Board to ensure fair and transparent procedures for the appointment and re-appointment of directors to the Company Board. The committee's authority and duties are set out in written terms of reference and are posted on the Company's website.

The Company follows a formal, fair and transparent procedure for the appointment of new directors to the Company Board. The committee reviews the structure, size and composition of the Company Board, identifies suitably qualified candidates if necessary and makes recommendations to the Company Board for decisions.

The Nomination Committee comprises five members, including one executive director, one non-executive director and three independent non-executive directors. It is chaired by an independent non-executive director.

The members of the Nomination Committee are:
Sir Rogerio (Roger) Hyndman Lobo *(Chairman)*
Professor Chang Hsin Kang
Li Tzar Kai, Richard
Lu Yimin
Sunil Varma

Audit Committee

The Company Board established the Audit Committee with effect from the Listing Date. The Audit Committee is responsible for ensuring objectivity and credibility of financial reporting of the HKT Limited Group, and that the directors have exercised the care, diligence and skills prescribed by law when presenting the HKT Limited Group's results to the registered holders of Share Stapled Units. On February 27, 2012, the Company Board has resolved to expand the duties of the Audit Committee to cover corporate governance functions. The committee's authority and duties are set out in written terms of reference and are posted on the Company's website.

The Audit Committee's responsibilities include the appointment, compensation and supervision of the external auditor. To ensure the external auditor's independence, procedures have been adopted by the Audit Committee for monitoring and approval of all audit and permitted non-audit services to be undertaken by the external auditor.

At the first meeting of the Audit Committee held on February 27, 2012, the Audit Committee has recommended to the Company Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2012, at the forthcoming annual general meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor.

Each member of the Audit Committee is an independent non-executive director. The members of the Audit Committee are:
Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
Sir Rogerio (Roger) Hyndman Lobo
The Hon Raymond George Hardenbergh Seitz

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports.

For the year ended December 31, 2011, fees paid and payable to the auditor of the HKT Limited Group amounted to approximately HK$10 million for audit services and HK$29 million for non-audit services. The non-audit services included the following:

Nature of service	HK$ million
Tax services	3
Other services	26
	29

Regulatory Compliance Committee

A Regulatory Compliance Committee comprising one non-executive director and two independent non-executive directors has been established to review and monitor dealings primarily with the Hutchison Whampoa Group, the Cheung Kong Group and the Hong Kong Economic Journal Company Limited. This is to ensure all dealings with these entities are conducted on an arm's-length basis.

The members of the Regulatory Compliance Committee are:
Sir Rogerio (Roger) Hyndman Lobo *(Chairman)*
Professor Chang Hsin Kang
Lu Yimin

COMMITTEE OF THE TRUSTEE-MANAGER BOARD

The Trustee-Manager Board has established an Audit Committee (the "Trustee-Manager Audit Committee") with defined terms of reference which are of no less exacting terms than those set out in the CG Code. To further reinforce its independence, the Trustee-Manager Audit Committee has been structured to only include independent non-executive directors of the Trustee-Manager.

The Trustee-Manager Audit Committee is responsible for ensuring objectivity and credibility of financial reporting of the HKT Trust and the Trustee-Manager, and that the directors of the Trustee-Manager have exercised the care, diligence and skills prescribed by law when presenting the HKT Trust's and the Trustee-Manager's results to the registered holders of Share Stapled Units. On February 27, 2012, the Trustee-Manager Board has resolved to expand the duties of the Trustee-Manager Audit Committee to cover corporate governance functions. The committee's authority and duties are set out in written terms of reference and are posted on the Company's website.

The Trustee-Manager Audit Committee's responsibilities include the appointment, compensation and supervision of the external auditor. To ensure the external auditor's independence, procedures have been adopted by the Trustee-Manager Audit Committee for monitoring and approval of all audit and permitted non-audit services to be undertaken by the external auditor.

At the first meeting of the Trustee-Manager Audit Committee held on February 27, 2012, the Trustee-Manager Audit Committee has recommended to the Trustee-Manager Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the HKT Trust and the Trustee-Manager for the financial year 2012, at the forthcoming annual general meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor. Furthermore, the fees and expenses of the auditor of the HKT Trust and the Trustee-Manager in connection with the audit of the financial statements of the HKT Trust and the Trustee-Manager are to be paid out of the Trust Property. The Trust Deed also requires that the membership of the Trustee-Manager Audit Committee must be the same as the membership of the Audit Committee of the Company.

Each member of the Trustee-Manager Audit Committee is an independent non-executive director of the Trustee-Manager and a member of the Audit Committee of the Company Board. The members of the Trustee-Manager Audit Committee are:
Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
Sir Rogerio (Roger) Hyndman Lobo
The Hon Raymond George Hardenbergh Seitz

The Trustee-Manager Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports.

For the year ended December 31, 2011, fee paid and payable to the auditor of the HKT Trust and the Trustee-Manager amounted to approximately HK$0.03 million for audit services and no non-audit services have been provided by the auditor.

INTERNAL CONTROLS

The directors of the Company and the Trustee-Manager are responsible for maintaining and reviewing the effectiveness of the internal controls of the HKT Limited Group and the HKT Trust, respectively, including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programs and budget. Appropriate policies and control procedures have been designed and established to ensure that: assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the HKT Limited Group's performance and on the HKT Trust are appropriately identified and managed. In the case of the Company, such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud.

The directors, through the Trustee-Manager Audit Committee, the Audit Committee and other committees of the Company Board (as the case may be), are kept regularly apprised of significant risks that may impact on the HKT Trust and the HKT Limited Group's performance. Group Internal Audit reports to the Audit Committee of the Company Board at each regularly scheduled meeting throughout the year, the results of their activities during the preceding period, including any significant matters pertaining to the adequacy and effectiveness of internal controls including, but not limited to any indications of failings or material weaknesses in those controls. The Risk Management department reviews significant aspects of risk management for the HKT Trust and the companies within the HKT Limited Group and makes recommendations to the Trustee-Manager Audit Committee, the Audit Committee and other committees of the Company Board (as the case may be) from time to time, including amongst other things, the appropriate mitigation and/or transfer of identified risk.

INTERNAL CONTROLS *(CONTINUED)*

The Audit Committee of the Company and the Trustee-Manager Audit Committee (to the extent required) has established and oversee a policy and comprehensive procedures whereby employees, customers, suppliers and other concerned parties have the right and the ability to report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The head of the Company's Internal Audit function has been appointed by the Chairman of the Audit Committee of the Company and the Trustee-Manager Audit Committee to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations, arising from any investigation to him for consideration by the Audit Committee of the Company and the Trustee-Manager Audit Committee.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its internal controls and risk management functions, including requiring the management of the Company to regularly assess and at least annually to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company and the Company's business practices in the future.

Group Internal Audit provides independent assurance to the Company Board and the Trustee-Manager Board and executive management of the Company on the adequacy and effectiveness of internal controls for the HKT Limited Group and the HKT Trust. The Head of Group Internal Audit reports directly to the Chairman of the Audit Committee, the Group Managing Director and the Group Chief Financial Officer of the Company.

Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the HKT Trust and the HKT Limited Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Trustee-Manager Audit Committee and the Audit Committee and key members of executive and senior management of the Company, respectively. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Trustee-Manager Audit Committee and the Audit Committee and executive and senior management of the Company (as the case may be) periodically.

Since the Listing Date up to the date of this annual report, Group Internal Audit conducted selective reviews of the effectiveness of the system of internal controls of the HKT Limited Group and the HKT Trust over financial, operational, compliance controls and risk management functions with emphasis on information security and procurement. Additionally, major heads of business and corporate functions of the HKT Limited Group were required to undertake a control self-assessment of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee of the Company at its first meeting held after the Review Period on February 27, 2012, which then reviewed and reported the same to the Company Board. The Audit Committee, the Trustee-Manager Audit Committee and the Company Board and the Trustee-Manager Board were not aware of any areas of concern that would have an adverse impact on the financial position or results of operations of the HKT Limited Group and the HKT Trust (including the Trustee-Manager) and considered the internal control systems to be generally effective and adequate including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programs and budget.

Further information on internal controls adopted and implemented by the HKT Limited Group and the HKT Trust is available on the website of PCCW Limited ("PCCW").

POTENTIAL CONFLICTS OF INTERESTS

The Trustee-Manager and the Company have instituted the following procedures or established the following measures to deal with potential conflicts of interest issues, including:

- if a director has a conflict of interest in a matter to be considered by the Company Board or the Trustee-Manager Board which the relevant board has determined to be material, the matter will be dealt with by a physical board meeting rather than a written resolution and independent non-executive directors who, and whose associates, have no material interest in the transaction must be present at that board meeting.

- in respect of matters in which PCCW and/or its subsidiaries have an interest, direct or indirect, any nominees appointed by PCCW and/or its subsidiaries to the Company Board or the Trustee-Manager Board to represent PCCW's (or its subsidiaries') interests will abstain from voting. In such matters, the quorum must comprise a majority of the independent non-executive directors and must exclude any nominee directors appointed by PCCW and/or its subsidiaries.

POTENTIAL CONFLICTS OF INTERESTS *(CONTINUED)*

- where matters concerning the HKT Limited Group relate to transactions entered into or to be entered into with a related party of the Trustee-Manager (which would include relevant associates thereof), the HKT Trust or the Company, the relevant board is required to consider the terms of the transactions to satisfy itself that the transactions are conducted on normal commercial terms, are not prejudicial to the interests of the HKT Limited Group and the registered holders of Share Stapled Units and are in compliance with applicable requirements of the Listing Rules and the Trust Deed relating to the transaction in question. The relevant board will also review these contracts to ensure that they comply with the provisions of the Listing Rules and the Trust Deed relating to connected transactions (as may be amended from time to time) as well as any other guidelines as may from time to time be prescribed by the Securities and Futures Commission of Hong Kong and the Stock Exchange that are applicable to the HKT Trust.

- a regime for all of the existing continuing connected transactions has already been established, with the on-going requirement that all such transactions (other than those qualifying for an exemption) be reviewed and reported on annually by the independent non-executive directors and the external auditor.

- the HKT Trust and the Company has each established an Audit Committee in accordance with the Listing Rules from among the independent non-executive directors to, amongst other matters, regularly review their respective internal control systems and internal audit reports.

INVESTOR RELATIONS AND COMMUNICATION WITH THE REGISTERED HOLDERS OF SHARE STAPLED UNITS

The Company and the Trustee-Manager encourage two-way communications with institutional and retail investors, as well as financial and industry analysts. Extensive information on the Company's and the HKT Trust's activities is provided in the annual and interim reports and circulars which are sent to the registered holders of Share Stapled Units and are also available on the Company's website (www.hkt.com).

In addition to dispatching this annual report to the registered holders of Share Stapled Units, financial and other information relating to the HKT Limited Group, the HKT Trust and the Trustee-Manager and their respective business activities have been disclosed on the Company's website in order to promote effective communication.

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their holdings in the Share Stapled Units, the business of the Company and the HKT Trust are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 148 of this annual report.

Registered holders of Share Stapled Units are encouraged to attend the forthcoming annual general meeting of the Company and the HKT Trust for which at least 20 clear business days' notice is given. At the meeting, directors will be available to answer questions on the business relating to HKT Limited Group.

On behalf of the boards of
HKT Limited and
HKT Management Limited
(in its capacity as the trustee-manager of the HKT Trust)

Philana WY Poon
Group General Counsel and Company Secretary
Hong Kong, February 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Total revenue increased by 7% to HK$19,825 million
- Total EBITDA increased by 2% to HK$7,411 million
- Profit attributable to holders of Share Stapled Units increased by 32% to HK$1,221 million; basic earnings per Share Stapled Unit increased by 27% to 26.84 HK cents
- Adjusted funds flow for the year was HK$2,387 million; annual adjusted funds flow per Share Stapled Unit was 37.20 HK cents
- Final distribution per Share Stapled Unit of 3.36 HK cents

MANAGEMENT REVIEW

HKT finished the 2011 financial year in a strong position and delivered an excellent set of financial results for holders of Share Stapled Units which reflected good momentum across all business segments. The results exceeded the key forecasts provided in HKT's Global Offering prospectus, a notable achievement in HKT's first year of listing on the Main Board of The Stock Exchange of Hong Kong Limited.

Total revenue increased by 7% to HK$19,825 million for the year ended December 31, 2011, due to improved results from the Telecommunications Services ("TSS") business and an impressive performance from the Mobile business. Total EBITDA for the year was HK$7,411 million, an increase of 2% over the previous year and exceeding the forecast of HK$7,385 million.

Profit attributable to holders of Share Stapled Units was HK$1,221 million, a substantial increase of 32% over the previous year and 31% above the forecast of HK$934 million. The growth was mainly attributable to the higher EBITDA achieved from the TSS and Mobile businesses, savings from both depreciation expenses and net finance costs, and lower tax expenses during the year.

Annual adjusted funds flow for the year ended December 31, 2011 reached HK$2,387 million, an increase of 18% over the previous year and again above the forecast of HK$2,356 million. Annual adjusted funds flow per Share Stapled Unit was 37.20 HK cents.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution[1] of 3.36 HK cents per Share Stapled Unit for the year ended December 31, 2011.

OUTLOOK

HKT used US$1 billion out of the proceeds of its listing in November 2011 to reduce its indebtedness, resulting in a stronger financial position which will allow the Company to pursue further growth of, and investment in, its well-established businesses.

It is our intention to develop our mobile business substantially in 2012. We plan to officially launch our LTE service delivering speeds of up to 100 Mbps in the first half of 2012, when more LTE-capable mobile devices become available in the market. This will complement our existing suite of high-speed mobile data offerings.

We will further expand our fiber coverage while at the same time deploying multiple technologies to serve customers' varying needs for high-speed broadband connectivity. In anticipation of a growth in demand, we are confident that there are good prospects for our global connectivity business given its advanced infrastructure backbone and the global pool of talented staff.

HKT's management and employees will work together to take the company to a higher level in terms of network capability, product innovation and customer service. Barring unforeseen circumstances, we are confident of achieving our objectives in 2012.

FINANCIAL REVIEW BY SEGMENTS

For the year ended December 31, HK$ million	2010 H1	2010 H2	2010 Full Year	**2011 H1**	**2011 H2**	**2011 Full Year**	Better/ (Worse) y-o-y
Revenue							
TSS	8,071	8,152	16,223	**8,259**	**9,036**	**17,295**	7%
Mobile	838	871	1,709	**919**	**1,048**	**1,967**	15%
Other Businesses	398	399	797	**479**	**331**	**810**	2%
Eliminations	(101)	(101)	(202)	**(120)**	**(127)**	**(247)**	(22)%
Total revenue	9,206	9,321	18,527	**9,537**	**10,288**	**19,825**	7%
Cost of sales	(3,635)	(3,816)	(7,451)	**(3,758)**	**(4,391)**	**(8,149)**	(9)%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(2,048)	(1,779)	(3,827)	**(2,156)**	**(2,109)**	**(4,265)**	(11)%
EBITDA[2]							
TSS	3,373	3,624	6,997	**3,386**	**3,619**	**7,005**	0%
Mobile	152	203	355	**218**	**292**	**510**	44%
Other Businesses	(2)	(101)	(103)	**19**	**(123)**	**(104)**	(1)%
Total EBITDA[2]	3,523	3,726	7,249	**3,623**	**3,788**	**7,411**	2%
TSS EBITDA Margin[2]	*42%*	*44%*	*43%*	***41%***	***40%***	***41%***	
Mobile EBITDA Margin[2]	*18%*	*23%*	*21%*	***24%***	***28%***	***26%***	
Total EBITDA Margin[2]	*38%*	*40%*	*39%*	***38%***	***37%***	***37%***	
Depreciation and amortization	(2,122)	(2,196)	(4,318)	**(2,132)**	**(2,118)**	**(4,250)**	2%
Gain/(Loss) on disposal of property, plant and equipment, net	(1)	15	14	**1**	**4**	**5**	(64)%
Other gains/(losses), net	–	40	40	**(28)**	**–**	**(28)**	NA
Finance costs, net	(793)	(769)	(1,562)	**(733)**	**(771)**	**(1,504)**	4%
Share of results of associates and jointly controlled companies	(5)	(68)	(73)	**(5)**	**(14)**	**(19)**	74%
Profit before income tax	602	748	1,350	**726**	**889**	**1,615**	20%

ADJUSTED FUNDS FLOW

For the year ended December 31, HK$ million	2010 H1	2010 H2	2010 Full Year	**2011 H1**	**2011 H2**	**2011 Full Year**	Better/ (Worse) y-o-y
Total EBITDA[2]	3,523	3,726	7,249	**3,623**	**3,788**	**7,411**	2%
Less cash outflows in respect of:							
Customer acquisition costs and licence fees	(365)	(693)	(1,058)	**(613)**	**(802)**	**(1,415)**	(34)%
Capital expenditures	(623)	(941)	(1,564)	**(721)**	**(848)**	**(1,569)**	0%
Adjusted funds flow before tax paid, net finance costs paid and changes in working capital	2,535	2,092	4,627	**2,289**	**2,138**	**4,427**	(4)%
Adjusted for:							
Tax payment	(24)	(19)	(43)	**(24)**	**(106)**	**(130)**	(202)%
Net finance costs paid	(886)	(703)	(1,589)	**(660)**	**(662)**	**(1,322)**	17%
Changes in working capital	(402)	(574)	(976)	**(253)**	**(335)**	**(588)**	40%
Adjusted funds flow[3]	1,223	796	2,019	**1,352**	**1,035**	**2,387**	18%
Annual adjusted funds flow per Share Stapled Unit (HK cents)[4]			NA			**37.20**	

Note 1 *A final distribution per Share Stapled Unit for the year ended December 31, 2011 is calculated on the annual adjusted funds flow in 2011, multiplied by the number of listing days in 2011 (i.e. 33 days) and divided by the number of calendar days in 2011 (i.e. 365 days).*

Note 2 *EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in an associate and jointly controlled companies, and the Group's share of results of an associate and jointly controlled companies. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*

Note 3 *Adjusted Funds Flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, net finance costs paid, and adjusted for changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRS and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRS, or an alternative to cash flow from operations or a measure of liquidity. The Group's Adjusted Funds Flow is computed in accordance with the above definition using financial information derived from the Group's audited consolidated financial statements. The Adjusted Funds Flow may be used for debt repayment.*

Note 4 *Annual adjusted funds flow per Share Stapled Unit is calculated by dividing the adjusted funds flow for the year ended December 31, 2011 by the number of issued Share Stapled Units as at December 31, 2011.*

Note 5 *Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.*

Note 6 *Gross debt refers to the principal amount of short-term borrowings and long-term borrowings. Net debt refers to the principal amount of short-term borrowings and long-term borrowings minus cash and cash equivalents.*

Note 7 *Group capital expenditure includes additions to property, plant and equipment, and interests in leasehold land.*

OPERATING DRIVERS[5]

	2010		**2011**		Better/ (Worse)
	H1	H2	**H1**	**H2**	y-o-y
Exchange lines in service ('000)	2,587	2,590	**2,625**	**2,636**	2%
Business lines ('000)	1,180	1,183	**1,217**	**1,228**	4%
Residential lines ('000)	1,407	1,407	**1,408**	**1,408**	0%
Total broadband access lines ('000) (Consumer, business and wholesale customers)	1,298	1,367	**1,437**	**1,518**	11%
Retail consumer broadband subscribers ('000)	1,148	1,215	**1,285**	**1,363**	12%
Retail business broadband subscribers ('000)	114	115	**116**	**119**	3%
Traditional data (Exit Gbps)	953	1,045	**1,243**	**1,501**	44%
Retail IDD minutes ('M mins)	674	652	**618**	**591**	(9)%
Mobile subscribers ('000)	1,469	1,484	**1,506**	**1,535**	3%
3G subscribers ('000)	606	667	**880**	**1,062**	59%
2G post-paid subscribers ('000)	319	250	**43**	**–**	NA
2G prepaid subscribers ('000)	544	567	**583**	**473**	(17)%

Telecommunications Services ("TSS")

For the year ended December 31, HK$ million	2010 H1	2010 H2	2010 Full Year	**2011 H1**	**2011 H2**	**2011 Full Year**	Better/ (Worse) y-o-y
Local Telephony Services	1,921	1,679	3,600	**1,653**	**1,744**	**3,397**	(6)%
Local Data Services	2,627	2,643	5,270	**2,660**	**3,020**	**5,680**	8%
International Telecommunications Services	1,851	1,863	3,714	**2,188**	**2,011**	**4,199**	13%
Other Services	1,672	1,967	3,639	**1,758**	**2,261**	**4,019**	10%
TSS Revenue	8,071	8,152	16,223	**8,259**	**9,036**	**17,295**	7%
Cost of sales	(3,130)	(3,362)	(6,492)	**(3,205)**	**(3,989)**	**(7,194)**	(11)%
Operating costs before depreciation and amortization	(1,568)	(1,166)	(2,734)	**(1,668)**	**(1,428)**	**(3,096)**	(13)%
TSS EBITDA[2]	3,373	3,624	6,997	**3,386**	**3,619**	**7,005**	0%
TSS EBITDA margin[2]	*42%*	*44%*	*43%*	***41%***	***40%***	***41%***	

The structural transformation of service focus from voice to data continued in the TSS segment, helping drive a remarkable 7% increase in revenue to HK$17,295 million for the year ended December 31, 2011. EBITDA for the year held firm at HK$7,005 million.

Local Telephony Services. Local telephony services revenue for the year ended December 31, 2011 was HK$3,397 million, compared to HK$3,600 million a year earlier. With an increasing number of customers upgrading from the traditional fixed-line service to our innovative eye multimedia service, which yields higher ARPU, local telephony services revenue in the second half of 2011 rebounded to HK$1,744 million, up 6% from the first half of 2011. Total fixed lines in service at the end of December 2011 increased to 2,636,000, and the eye penetration of our residential customer base enlarged to 15% for the year.

Local Data Services. Local data services revenue, comprising broadband network revenue and local data revenue, increased by 8% year-on-year to HK$5,680 million for the year ended December 31, 2011. The increase was underpinned by an accelerated growth of 11% in broadband network revenue, which was attributable to the successful promotion of our fiber broadband service in the mass market since June 2011. The encouraging customer response pushed the total number of broadband access lines up by 11% to 1,518,000 at the end of December 2011. The Group will continue with its unique fixed and wireless broadband service proposition as a differentiator in the broadband market. Meanwhile, local data revenue also recorded a healthy growth due to increased business demand for local data services.

International Telecommunications Services. International telecommunications services revenue for the year ended December 31, 2011 increased significantly by 13% year-on-year to HK$4,199 million. The robust performance was driven by the increase of wholesale voice and international connectivity services revenue due to the continued high international bandwidth demand. This line of business also benefited from the integration of certain assets and businesses from Reach Ltd. ("Reach"), which resulted in efficiency gains during the year and enhanced our competitive position for international connectivity services.

Other Services. Other services revenue primarily comprised revenue from the sales of network equipment and customer premises equipment ("CPE"), provision of technical and maintenance subcontracting services and contact centre services ("Teleservices"). Other services revenue for the year ended December 31, 2011 increased by 10% year-on-year to HK$4,019 million, primarily because of stronger CPE sales and network equipment sales for large telecommunications projects in the generally benign local economic environment.

Mobile

For the year ended December 31, HK$ million	2010 H1	2010 H2	2010 Full Year	**2011 H1**	**2011 H2**	**2011 Full Year**	Better/ (Worse) y-o-y
Mobile Revenue	838	871	1,709	**919**	**1,048**	**1,967**	15%
Mobile EBITDA[2]	152	203	355	**218**	**292**	**510**	44%
Mobile EBITDA margin[2]	*18%*	*23%*	*21%*	***24%***	***28%***	***26%***	

Mobile business continued to deliver a strong performance in 2011, with total mobile revenue increasing by 15% to HK$1,967 million for the year ended December 31, 2011. Mobile service revenue increased by 17% during the year, due to an enlarged 3G subscriber base with a higher ARPU. Driven by increased mobile data usage in the wake of more data hungry applications, mobile data revenue surged by 69% in 2011, and accounted for 59% of mobile service revenue.

The Group enjoys unparalleled competitive cost advantages because of its unique fixed and mobile integrated network, which is supported by an extensive fiber backhaul and more than 9,500 Wi-Fi hotspots. Benefiting from the lower incremental operating costs, especially after the integration of the 2G and 3G networks during the year, the Mobile business reported a spectacular growth of 44% in EBITDA to HK$510 million and a significant improvement in EBITDA margin from 21% a year ago to 26%.

PCCW mobile's total subscribers reached 1,535,000 at the end of December 2011, an increase of 3% over the previous year. 3G subscribers expanded 59% to 1,062,000 while 3G subscribers as a percentage of the total subscriber base increased to 69% at the end of December 2011, compared to 45% a year earlier.

The accelerated data growth and a larger 3G subscriber base, consistent with our focus on higher-value customers, continued to raise the blended post-paid ARPU, which increased 29% to HK$184 as at December 31, 2011 from HK$143 as at December 31, 2010.

Other Businesses

Other Businesses primarily comprised Unihub China Information Technology Company Limited (the "ZhongYing JV"), which provides network integration and related services to telecommunications operators in the PRC. Revenue from Other Businesses increased by 2% to HK$810 million for the year ended December 31, 2011.

Eliminations

Eliminations was HK$247 million for the year ended December 31, 2011, as compared to HK$202 million a year ago. Eliminations mainly related to internal charges for telecommunications services consumed among the Group's business units.

Cost of Sales

Cost of sales for the year ended December 31, 2011 increased by 9% to HK$8,149 million. The increase in cost of sales was in line with the growth in revenue.

General and Administrative Expenses

The Group continued to implement cost management measures appropriate for the challenging operating environment, while at the same time investing for business growth in 2011. Accordingly, general and administrative expenses increased 5% to HK$8,510 million for the year ended December 31, 2011. The increase in expenses was primarily due to increased rental expenses for retail shops, larger publicity and promotion spending on growth businesses such as fiber broadband, as well as higher staff costs for quality staff to support business growth. During the year, depreciation and amortization expenses decreased by 2% to HK$4,250 million, mainly due to lower depreciation expenses reflecting the Group's disciplined capital expenditures over the past few years.

EBITDA[2]

Solid performance in the TSS business and significant improvement in the Mobile business led to an overall EBITDA improvement in 2011. EBITDA increased by 2% to HK$7,411 million for the year ended December 31, 2011.

Finance Costs, Net

Net finance costs decreased by 4% to HK$1,504 million for the year ended December 31, 2011 primarily due to the interest savings after the repayment in November 2011 of the US$1 billion notes due 2011.

Income Tax

Income tax expenses for the year ended December 31, 2011 were HK$344 million, as compared to HK$378 million a year ago, with an effective tax rate of 21% (2010: 28%). The decrease in tax expenses was primarily due to the utilization of previously unrecognized tax losses as certain loss-making companies had turned profitable during the year. The rate is higher than the statutory tax rate of 16.5%, mainly due to higher tax rates for overseas entities.

Non-controlling Interests

Non-controlling interests of HK$50 million primarily represented the net profit attributable to the minority shareholders of the ZhongYing JV.

Profit Attributable to Holders of Share Stapled Units/Shares of the Company

Profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2011 increased by 32% to HK$1,221 million (2010: HK$925 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholders' return and a sound capital position. The Group also makes adjustments to maintain an optimal capital structure in light of changes in economic conditions and to reduce the cost of capital.

The Global Offering completed in November 2011 generated net proceeds of HK$8,944 million, HK$7,800 million of which was used towards repayment of the Group's debt.

In November 2011, the Group redeemed US$1,000 million in bonds which came due on maturity. During the year, the Group also reduced its outstanding bank loans by HK$3,920 million. As a result, the Group's gross debt[6] fell to HK$23,583 million as at December 31, 2011 (December 31, 2010: HK$35,303 million). Cash and cash equivalents totaled HK$2,226 million as at December 31, 2011 (December 31, 2010: HK$5,456 million). The Group's net debt[6] was HK$21,357 million as at December 31, 2011 (December 31, 2010: HK$29,847 million).

As at December 31, 2011, the Group had ample liquidity as evidenced by committed bank loan facilities totaling HK$20,444 million, of which HK$8,559 million remained undrawn.

The Group's gross debt[6] to total assets was 36% as at December 31, 2011 (2010: 52%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2011, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE[7]

Group capital expenditure for the year ended December 31, 2011 was HK$1,600 million (2010: HK$1,613 million). In addition, the Group received fixed assets of HK$629 million from the integration of Reach. Major outlays for the year were mainly expanded investments and network enhancement in meeting demand on high-speed broadband services, quadruple-play services and international networks.

Going forward, the Group will continue to invest in its delivery platforms and networks taking into account the prevailing market conditions, and using assessment criteria including internal rate of return, net present value and payback period.

HEDGING

Market risk arises from foreign currency and interest rate exposures related to cash investments and borrowings. As a matter of policy, the Group continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Finance and Management Committee, a sub-committee of the Executive Committee of the board of directors of the Company, determines appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with the policies and guidelines, approved by the Finance and Management Committee, which are reviewed on a regular basis.

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries. As at December 31, 2011, all cross currency swap contracts were designated as cash flow hedges and fair value hedges for the Group's foreign currency denominated long-term borrowings.

CHARGE ON ASSETS

As at December 31, 2011, certain assets of the Group with an aggregate carrying value of HK$62 million (2010: HK$70 million) were pledged to secure loans and banking facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2010	**2011**
Performance guarantees	337	**240**
Others	13	**3**
	350	**243**

The Group is subject to certain corporate guarantee obligations to guarantee the performance of its wholly-owned subsidiaries and affiliates in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained but the directors of the Company are of the opinion that any resulting liability would not materially affect the financial position of the Group.

HUMAN RESOURCES

As at December 31, 2011, the Group had approximately 15,300 employees (2010: 15,200). About 60% of these employees work in Hong Kong and the others are based mainly in the PRC, the United States and the Philippines. The Group has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of bonuses is generally based on achievement of EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units.

FINAL DIVIDEND/DISTRIBUTION

The board of directors of the Trustee-Manager has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 3.36 HK cents per Share Stapled Unit, in respect of the year ended December 31, 2011 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 3.36 HK cents per ordinary share, in respect of the same period), subject to the approval of the registered unit holders of the HKT Trust and the shareholders of the Company at the forthcoming combined annual general meeting of the HKT Trust and the Company. The Trustee-Manager and the Company will in due course issue a notice of closure of the registers of members and the date of combined annual general meeting as well as the record date and the approximate payment date for the proposed final distribution.

FINANCIAL INFORMATION

COMBINED REPORT OF THE DIRECTORS

The board of directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) (the "Trustee-Manager Board") and the board of directors of HKT Limited (the "Company") (the "Company Board") present the first annual report together with the consolidated financial statements of (i) the HKT Trust and the Company and its subsidiaries (collectively the "Group") and (ii) the Company and its subsidiaries (the "HKT Limited Group") (the consolidated financial statements of the Group and the HKT Limited Group are collectively referred to as the "HKT Trust and HKT Limited consolidated financial statements") for the year ended December 31, 2011.

The Trustee-Manager Board also presents its audited financial statements for the period from June 14, 2011 (its date of incorporation) to December 31, 2011, which are set out in the accompanying financial statements on pages 137 to 147.

PRINCIPAL ACTIVITIES

The HKT Trust, a trust constituted on November 7, 2011 under the laws of the Hong Kong Special Administrative Region ("Hong Kong") and managed by the Trustee-Manager, has been established as a fixed single investment trust, with its activities being limited to investing in the Company and anything necessary or desirable for or in connection with investing in the Company.

The principal activities of the HKT Limited Group are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

The detailed segment information of the Group is set out in note 7 to the HKT Trust and HKT Limited consolidated financial statements.

The Trustee-Manager, an indirect wholly-owned subsidiary of PCCW Limited ("PCCW"), has a specific and limited role which is to administer the HKT Trust. The Trustee-Manager is not actively engaged in running the businesses managed by the HKT Limited Group.

RESULTS, APPROPRIATIONS AND DISTRIBUTIONS

The results of the Group for the year ended December 31, 2011 are set out in the accompanying HKT Trust and HKT Limited consolidated financial statements on page 56.

The results of the Trustee-Manager for the period from June 14, 2011 (its date of incorporation) to December 31, 2011 are set out in the accompanying financial statements on page 139.

The Trustee-Manager Board has recommended the payment of a final distribution by the HKT Trust in respect of the share stapled units (the "Share Stapled Units"), of 3.36 HK cents per Share Stapled Unit, in respect of the year ended December 31, 2011 (and in order to enable the HKT Trust to pay that distribution, the Company Board has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 3.36 HK cents per ordinary share, in respect of the same period), subject to the approval of the registered unitholders of the HKT Trust and the shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM").

The distributions payable to the registered holders of Share Stapled Units will be pro-rated in accordance with the disclosure in the prospectus (the "Prospectus") dated November 16, 2011 jointly issued by the HKT Trust and the Company. Specifically, the distribution amount for 2011 will reflect the period from November 29, 2011 (hereinafter the "Listing Date") to December 31, 2011, and thus will be the annual amount stated in the Prospectus multiplied by the number of days from the Listing Date to December 31, 2011 (both days inclusive) divided by 365 (being the number of calendar days in the financial year ended December 31, 2011.

The Trustee-Manager Board does not recommend the payment of a final dividend for the period ended December 31, 2011 to CAS Holding No. 1 Limited, the sole shareholder of the Trustee-Manager.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and/or liabilities of the Group for the year ended December 31, 2011 is set out on page 136.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

Particulars of the principal subsidiaries of the Company, interests in an associate and jointly controlled companies of the Group are set out in notes 22, 19 and 20 respectively of the HKT Trust and HKT Limited consolidated financial statements.

The Trustee-Manager itself does not beneficially own any subsidiaries, associates nor jointly controlled companies.

FIXED ASSETS

Details of movements in the Group's property, plant and equipment and interests in leasehold land during the year are set out in notes 15 and 16 to the HKT Trust and HKT Limited consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings are set out in notes 23(c) and 24 to the HKT Trust and HKT Limited consolidated financial statements.

SHARE STAPLED UNITS AND SHARE CAPITAL

There were no new Share Stapled Units issued between the Listing Date and December 31, 2011.

Details of the allotment results under the Global Offering (as defined in the Prospectus) of Share Stapled Units have been disclosed in the announcement dated November 28, 2011 of the HKT Trust and the Company.

Details of movements in the share capital of the Company during the period from June 14, 2011 (its date of incorporation) to December 31, 2011 are set out in note 27 to the HKT Trust and HKT Limited consolidated financial statements.

Details of the share capital of the Trustee-Manager are set out in note 6 to the financial statements of the Trustee-Manager.

RESERVES

Details of movements in reserves of the Group during the year are set out in note 28 to the HKT Trust and HKT Limited consolidated financial statements.

The statement of changes in equity of HKT Management Limited is set out on page 141.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2011, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

DIRECTORS

The directors of the Company (the "Company Directors") and the directors of the Trustee-Manager (the "Trustee-Manager Directors") (the Company Directors and the Trustee-Manager Directors collectively referred to as the "Directors") who held office during the year ended December 31, 2011 and up to the date of this report are:

Executive Directors	
Li Tzar Kai, Richard *Executive Chairman*	(appointed and designated on November 11, 2011)
Alexander Anthony Arena *Group Managing Director*	*(note 1)*
Hui Hon Hing, Susanna *Group Chief Financial Officer*	*(note 2)*
Non-Executive Directors	
Peter Anthony Allen	(appointed and designated on November 11, 2011)
Chung Cho Yee, Mico	(appointed and designated on November 11, 2011)
Lu Yimin	(appointed and designated on November 11, 2011)
Li Fushen	(appointed and designated on November 11, 2011)
Independent Non-Executive Directors	
Professor Chang Hsin Kang, FREng, GBS, JP	(appointed and designated on November 11, 2011)
Sir Rogerio (Roger) Hyndman Lobo, CBE, LLD, JP	(appointed and designated on November 11, 2011)
The Hon Raymond George Hardenbergh Seitz	(appointed and designated on November 11, 2011)
Sunil Varma	(appointed and designated on November 11, 2011)

Notes:

1. Alexander Anthony Arena was appointed as a director of the Company and the Trustee-Manager with effect from June 14, 2011 and June 16, 2011 respectively. He was designated as an Executive Director and the Group Managing Director of the Company and the Trustee-Manager with effect from November 11, 2011.

2. Hui Hon Hing, Susanna was appointed as a director of the Company and the Trustee-Manager with effect from June 14, 2011 and June 16, 2011 respectively. She was designated as an Executive Director of the Company and the Trustee-Manager with effect from November 11, 2011.

Under the trust deed dated November 7, 2011 constituting the HKT Trust, entered into between the Trustee-Manager and the Company, and as supplemented, amended or substituted from time to time (the "Trust Deed"), the Trustee-Manager Directors must be the same individuals who serve as the Company Directors. Accordingly, the retirement by rotation provisions are also applicable, indirectly, in relation to the Trustee-Manager Board.

In accordance with the Company's amended and restated articles of association and the Trust Deed, all directors shall retire from office of both the Company and the Trustee-Manager at the forthcoming AGM and, being eligible, offer themselves for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Trustee-Manager and the Company together have received from each of their independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and consider that all the independent non-executive Directors are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract with the HKT Limited Group which is not terminable by the HKT Limited Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2011, the Directors; the chief executive of the Company; and their respective associates had the following interests and short positions in the Share Stapled Units and the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register(s) required to be kept under Section 352 of the SFO or as otherwise notified to the Company, the Trustee-Manager and The Stock Exchange of Hong Kong Limited (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:

1. Interests in Share Stapled Units

The table below sets out the aggregate long positions in the Share Stapled Units held by the Directors and chief executive of the Company:

Name of Director/Chief Executive of the Company/Trustee-Manager	Number of Share Stapled Units held				Number of underlying Share Stapled Units held under equity derivatives	Total	Approximate percentage of issued Share Stapled Units
	Personal interests	Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	–	213,667,707 *(Note 1(a))*	87,532,555 *(Note 1(b))*	–	301,200,262	4.69%
Alexander Anthony Arena	1,038,235 *(Note 2)*	–	–	–	–	1,038,235	0.02%
Peter Anthony Allen	12,740 *(Note 3)*	–	–	–	–	12,740	0.0002%
Chung Cho Yee, Mico	58,530 *(Note 4(a))*	401 *(Note 4(b))*	–	–	–	58,931	0.0009%
Professor Chang Hsin Kang	1,395 *(Note 5)*	–	–	–	–	1,395	0.00002%

Each Share Stapled Unit confers an interest in:

(a) one voting ordinary share of HK$0.0005 in the Company; and
(b) one voting preference share of HK$0.0005 in the Company,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the Trust Deed and the Company's amended and restated articles of association, the number of ordinary shares and preference shares of the Company in issue must be the same at all times and must also, in each case, be equal to the number units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(CONTINUED)*

1. Interests in Share Stapled Units *(continued)*

Notes:

1. (a) Of these Share Stapled Units,

    (i) Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited, held 6,797,708 Share Stapled Units; and was interested in the 5,172,169 Share Stapled Units which will be received on or around March 2, 2012 under the First PCCW Distribution (as defined in the Prospectus); and

    (ii) Eisner Investments Limited ("Eisner") held 200,964,200 Share Stapled Units; and was interested in the 733,630 Share Stapled Units which will be received on or around March 2, 2012 under the First PCCW Distribution.

    Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink Limited and Eisner.

    (b) These interests represented:

    (i) the deemed interests in 1,049,338 Share Stapled Units held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited ("HWL"), and 798,409 Share Stapled Units which will be received by Yue Shun Limited on or around March 2, 2012 under the First PCCW Distribution. Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares of Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares of the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have interests in the 1,049,338 Share Stapled Units and 798,409 Share Stapled Units held or to be held by Yue Shun Limited;

    (ii) the deemed interests in 4,422,432 Share Stapled Units held by Pacific Century Group Holdings Limited ("PCGH") and 3,364,894 Share Stapled Units which will be received by PCGH on or around March 2, 2012 under the First PCCW Distribution. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have interests in the 4,422,432 Share Stapled Units and 3,364,894 Share Stapled Units held or to be held by PCGH;

    (iii) the deemed interests in 44,234,608 Share Stapled Units held by Pacific Century Regional Developments Limited ("PCRD") and 33,656,766 Share Stapled Units which will be received by PCRD on or around March 2, 2012 under the First PCCW Distribution. PCGH had, through certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.74% interest in PCRD. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Li Tzar Kai, Richard was also deemed to be interested in 0.91% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have interests in the 44,234,608 Share Stapled Units and 33,656,766 Share Stapled Units held or to be held by PCRD; and

    (iv) a deemed interest in 6,108 Share Stapled Units which will be received by PineBridge Investments LLC ("PBI LLC") in the capacity of investment manager on or around March 2, 2012 under the First PCCW Distribution. PBI LLC was an indirect subsidiary of Chiltonlink Limited and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink Limited. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 6,108 Share Stapled Units to be held by PBI LLC.

2. Of these Share Stapled Units, Alexander Anthony Arena held 1,021,714 Share Stapled Units and was interested in the 16,521 Share Stapled Units which will be received on or around March 2, 2012 under the First PCCW Distribution.

3. Of these Share Stapled Units, Peter Anthony Allen held 7,235 Share Stapled Units and was interested in the 5,505 Share Stapled Units which will be received on or around March 2, 2012 under the First PCCW Distribution.

4. (a) Of these Share Stapled Units, Chung Cho Yee, Mico held 32,960 Share Stapled Units and was interested in the 25,570 Share Stapled Units which will be received on or around March 2, 2012 under the First PCCW Distribution.

    (b) These Share Stapled Units which will be received on or around March 2, 2012 under the First PCCW Distribution were the interests of the spouse of Chung Cho Yee, Mico.

5. Subsequent to the date of this report, the Company was notified of an increase in the Share Stapled Units from 1,391 to 1,395, which will be received on or around March 2, 2012 under the First PCCW Distribution.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(CONTINUED)*

2. Interests in the Associated Corporations of the Company

A. PCCW (being a holding company of the HKT Trust and the Company and therefore an associated corporation)

(i) The table below sets out the aggregate long positions in the shares and underlying shares of PCCW held by the Directors and the chief executive of the Company:

Name of Director/Chief Executive of the Company/Trustee-Manager	Number of ordinary shares of PCCW held Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares of PCCW held under equity derivatives	Total	Approximate percentage of issued share capital of PCCW
Li Tzar Kai, Richard	–	–	271,666,824 *(Note 1(a))*	1,740,004,335 *(Note 1(b))*	–	2,011,671,159	27.66%
Alexander Anthony Arena *(Note 3)*	760,000	–	–	–	6,400,200 *(Note 2)*	7,160,200	0.10%
Peter Anthony Allen	253,200	–	–	–	2,000,000 *(Note 4)*	2,253,200	0.03%
Chung Cho Yee, Mico	1,176,260	18,455 *(Note 5)*	–	–	5,695,200 *(Note 4)*	6,889,915	0.09%
Professor Chang Hsin Kang	64,180 *(Note 6)*	–	–	–	–	64,180	0.001%

Notes:

1. (a) Of these PCCW shares, PCD held 237,919,824 shares and Eisner held 33,747,000 shares.

   (b) These interests represented:

   (i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun Limited;

   (ii) a deemed interest in 154,785,177 shares of PCCW held by PCGH;

   (iii) a deemed interest in 1,548,211,301 shares of PCCW held by PCRD; and

   (iv) a deemed interest in 281,000 shares of PCCW held by PBI LLC in the capacity of investment manager.

2. These interests represented Alexander Anthony Arena's beneficial interest in: (a) 200 underlying shares in PCCW held in the form of 20 American Depositary Receipts which constituted listed equity derivatives; and (b) 6,400,000 underlying shares of PCCW in respect of share options granted by PCCW to Alexander Anthony Arena as beneficial owner pursuant to a share option scheme of PCCW adopted on September 20, 1994, termination of which was approved by the shareholders of PCCW at its annual general meeting held on May 19, 2004 ("1994 PCCW Scheme"), the details of which are set out in paragraph 2A(ii) below.

3. As disclosed previously in the Prospectus and the annual and interim reports of PCCW, a private company owned by Li Tzar Kai, Richard has provided a seven year interest free-loan in the amount of US$10,000,000 to Alexander Anthony Arena at his request and for personal reasons. Alexander Anthony Arena has entered into a seven year consultancy agreement with another private company owned by Li Tzar Kai, Richard with an annual consultancy fee sufficient to repay the aforementioned loan over its seven year term. This private arrangement was reviewed by the remuneration committee of PCCW prior to its finalization. The committee noted that the consultancy services provided to the private company would be publicly disclosed, would not conflict with Alexander Anthony Arena's duties at PCCW and overall would be in the interests of PCCW.

4. These interests represented the interests in underlying shares of PCCW in respect of share options granted by PCCW to these directors as beneficial owners pursuant to the 1994 PCCW Scheme, the details of which are set out in paragraph 2A(ii) below.

5. These PCCW shares were held by the spouse of Chung Cho Yee, Mico.

6. Subsequent to the date of this report, the Company was notified of an increase of shares from 64,000 to 64,180.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(CONTINUED)*

2. Interests in the Associated Corporations of the Company *(continued)*

A. PCCW (being a holding company of the HKT Trust and the Company and therefore an associated corporation) *(continued)*

(ii) The table below sets out the interests of the Directors and the chief executive of the Company in share options of PCCW which remain outstanding under the 1994 PCCW Scheme and the share options movements during the year ended December 31, 2011:

Name of Director/Chief Executive of the Company/Trustee-Manager	Date of grant *(Note)*	Vesting period *(Note)*	Exercisable period *(Note)*	Exercise price HK$	Number of options Outstanding at 01.01.2011	Number of options Outstanding at 12.31.2011
Alexander Anthony Arena	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.84	1,600,000	–
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	6,400,000	6,400,000
Peter Anthony Allen	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.84	178,600	–
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	2,000,000	2,000,000
Chung Cho Yee, Mico	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.84	1,060,000	–
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	5,695,200	5,695,200

Note: All dates are shown month/day/year.

B. PCCW-HKT Capital No.2 Limited (an indirect wholly-owned subsidiary of the Company and therefore an associated corporation)

PineBridge Investments Asia Limited ("PBIA") in the capacity of investment manager held US$10,000,000 of 6% guaranteed notes due 2013 (the "Notes") issued by PCCW-HKT Capital No.2 Limited, an indirect wholly-owned subsidiary of the Company. PBIA was an indirect subsidiary of Chiltonlink Limited and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink Limited. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the amount of US$10,000,000 of the Notes held by PBIA.

C. Pacific Century Premium Developments Limited ("PCPD", an indirect subsidiary of PCCW and therefore an associated corporation)

The table below sets out the long position in the shares and underlying shares of PCPD held by a Director:

Name of Director	Number of ordinary shares of PCPD held: Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares of PCPD held under equity derivatives	Total	Approximate percentage of issued share capital of PCPD
Chung Cho Yee, Mico	–	–	–	–	5,000,000	5,000,000	0.21%

The above interests represented the interests in underlying shares in respect of share options granted by PCPD to the Director as beneficial owner pursuant to a share option scheme of PCPD adopted on March 17, 2003, the termination of which was approved by the shareholders of PCPD at its annual general meeting held on May 13, 2005 ("2003 PCPD Scheme"). Details of the PCPD's share options outstanding and movements under the 2003 PCPD Scheme during the year ended December 31, 2011 are as follows:

Name of Director	Date of grant *(Note)*	Vesting period *(Note)*	Exercisable period *(Note)*	Exercise price HK$	Number of options Outstanding at 01.01.2011	Number of options Outstanding at 12.31.2011
Chung Cho Yee, Mico	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	5,000,000

Note: All dates are shown month/day/year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(CONTINUED)*

Save as disclosed in the foregoing, none of the Directors or the chief executive of the Company or their respective associates had any interests or short positions in any Share Stapled Units or in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register(s) required to be kept under Section 352 of the SFO or as otherwise notified to the Company, the Trustee-Manager and the Stock Exchange pursuant to the Model Code of the Listing Rules as at December 31, 2011.

2011-2021 SHARE STAPLED UNITS OPTION SCHEME

The HKT Trust and the Company conditionally adopted on November 7, 2011 (the "Adoption Date") a Share Stapled Units option scheme (the "2011-2021 Option Scheme") which became effective upon listing, under which the Trustee-Manager Board and the Company Board may, at their discretion, grant Share Stapled Unit options to the eligible participants to subscribe for such number of Share Stapled Units as the Trustee-Manager Board and the Company Board may determine at a subscription price on and subject to the terms and conditions stipulated therein.

(1) Purpose

The purpose of the 2011-2021 Option Scheme is to enable the HKT Trust and the Company, acting jointly by mutual agreement between them, to grant options to the Eligible Participants (as defined below) as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

(2) Eligible Participant

Eligible Participants include (a) any full-time or part-time employees of the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of the Company and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries.

The Trustee-Manager is not an Eligible Participant under the 2011-2021 Option Scheme.

(3) Total number of Share Stapled Units available for issue

(i) Notwithstanding any other provisions of the 2011-2021 Option Scheme, no options may be granted under the 2011-2021 Option Scheme if the exercise of the option may result in PCCW ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).

(ii) Subject to the further limitation in (i) above, as required by the Listing Rules the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the 2011-2021 Option Scheme and any other share option schemes of the Company and the HKT Trust must not, in aggregate, exceed 10% of the issued Share Stapled Units as at the Listing Date unless the approval of holders of Share Stapled Units has been obtained.

(iii) In addition, as prescribed by the Listing Rules, the maximum aggregate number of Share Stapled Units which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2011-2021 Option Scheme and any other share option schemes of the Company and the HKT Trust must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the 2011-2021 Option Scheme if this will result in such limit being exceeded.

(4) The maximum entitlement of each Eligible Participant

The maximum entitlement of each Eligible Participant (other than a substantial holder of Share Stapled Units or an independent non-executive Director, or any of their respective associates) under the 2011-2021 Option Scheme is that the total number of Share Stapled Units issued and to be issued upon exercise of all options granted and to be granted to such Eligible Participant (including exercised, cancelled and outstanding options under the 2011-2021 Option Scheme) in the 12-month period up to and including the date of such further grant does not exceed 1% of the issued Share Stapled Units as at the relevant time. Any further grant of Share Stapled Units in excess of this limit is subject to the separate approval of the holders of Share Stapled Units in general meeting with such Eligible Participant and his associates abstaining from voting.

2011-2021 SHARE STAPLED UNITS OPTION SCHEME *(CONTINUED)*

(5) Option period

An option may be exercised in whole or in part in accordance with the terms of the 2011-2021 Option Scheme at any time during a period to be notified by the Trustee-Manager Board and the Company Board to each grantee, the expiry date of such period not to exceed ten (10) years from the date of grant of the option.

(6) Minimum period for which an option must be held before it is vested

The period within which an option may be exercised under the 2011-2021 Option Scheme will be determined by the Trustee-Manager Board and the Company Board at their absolute discretion, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the 2011-2021 Option Scheme.

(7) Payment on acceptance of the option

Upon acceptance of the offer, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price in accordance with the provisions of the 2011-2021 Option Scheme.

(8) Basis of determining the subscription price

The subscription price for Share Stapled Units in respect of any particular option granted shall be such price as the Trustee-Manager Board and the Company Board shall determine, provided that such price shall not be less than the highest of (i) the closing price per Share Stapled Unit on the Main Board as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option, which must be a business day; and (ii) the average of the closing prices of a Share Stapled Unit on the Main Board as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the date of offer of the option; and (iii) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.

(9) The remaining life of the 2011-2021 Option Scheme

Subject to the earlier termination by an ordinary resolution in general meeting of registered holders of Share Stapled Units or resolutions of the Company Board, the 2011-2021 Option Scheme shall be valid and effective for a period of ten (10) years commencing from the Adoption Date, after which period no further options will be offered or granted but the provisions of the 2011-2021 Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the 2011-2021 Option Scheme.

No Share Stapled Unit option has been granted under the 2011-2021 Option Scheme since the Adoption Date. Accordingly, there were no outstanding options under the 2011-2021 Option Scheme as at the Listing Date and December 31, 2011 and no options were granted to or exercised by any Directors or the chief executive of the Company or employees of the HKT Limited Group or other participants nor cancelled or lapsed during the period ended December 31, 2011.

SHARE STAPLED UNITS AWARD SCHEMES

On October 11, 2011, the Company conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "Share Stapled Units Award Schemes"). The Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by the Company which became effective upon listing as a potential means to incentivise and reward the eligible participants.

In the case of the HKT Share Stapled Units Purchase Scheme, the eligible participants include (a) any full-time or part-time employees of the Company and/or any of its subsidiaries; and (b) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries.

In the case of the HKT Share Stapled Units Subscription Scheme, the eligible participants are the same as the eligible participants in respect of the HKT Share Stapled Units Purchase Scheme, as referred to above, except that the directors of the Company or its subsidiaries and/or any other connected persons of the Company are not eligible participants. The reason why directors of the Company or any of its subsidiaries (or any other connected persons) are excluded from participation is to avoid the connected transactions that would otherwise arise on the allotment of new Share Stapled Units to the Trustee (as defined below) to be held on trust for such directors (or other connected persons).

SHARE STAPLED UNITS AWARD SCHEMES *(CONTINUED)*

The Share Stapled Units Award Schemes are administered by the Company Board and an independent trustee (the "Trustee"), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants.

Subject to the rules of the Share Stapled Units Award Schemes, each scheme provides that following the making of an award to an employee of the HKT Limited Group, the relevant Share Stapled Units are held in trust for that employee and then shall vest over a period of time provided that the employee remains, at all times after the award date and on the relevant vesting date, an employee of the HKT Limited Group and satisfies any other conditions specified at the time the award is made. During the period ended December 31, 2011, no awards have been made to any directors or employees of the HKT Limited Group under the Share Stapled Units Award Schemes.

Save as disclosed above, at no time during the year was the Trustee-Manager, the Company or any of their subsidiaries, holding companies or fellow subsidiaries a party to any arrangement that may enable the Directors to acquire benefits by means of the acquisition of Share Stapled Units in the HKT Trust and the Company, or shares in, or debentures of, the Company or any other body corporate and none of the Directors or the chief executive of the Company or their respective spouses or children under 18 years of age had any right to subscribe for equity or debt securities of the HKT Trust and/or the Company or any of their associated corporations or had exercised any such right during the period ended December 31, 2011.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL HOLDERS OF SHARE STAPLED UNITS

As at December 31, 2011, the following persons (other than any Directors or the chief executive of the Company) were substantial holders of Share Stapled Units and of ordinary shares and preference shares in the Company, and had interests or short positions in the Share Stapled Units and shares and underlying shares of the Company as recorded in the register(s) required to be kept under Section 336 of the SFO:

Name	Capacity	Number of Share Stapled Units held	Approximate percentage (%)	Note
PCCW	Interest in controlled entity	4,363,376,792	68	1
CAS Holding No. 1 Limited	Beneficial interest	4,363,376,792	68	2

Each Share Stapled Unit confers an interest in:

(a) one voting ordinary share of HK$0.0005 in the Company; and
(b) one voting preference share of HK$0.0005 in the Company,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the Trust Deed and the Company's amended and restated articles of association, the number of ordinary shares and preference shares of the Company in issue must be the same at all times and must also, in each case, be equal to the number units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

Notes:

The Trustee-Manager held all of the issued ordinary shares of the Company in its capacity as trustee and manager of the HKT Trust, upon and subject to the terms and conditions of the Trust Deed.

1. PCCW indirectly held these interests through its direct wholly-owned subsidiary, CAS Holding No. 1 Limited.

2. CAS Holding No. 1 Limited held 4,205,296,335 Share Stapled Units representing approximately 65.54% of the issued number of Share Stapled Units as of February 21, 2012.

3. Capital Research and Management Company in its capacity as investment manager held 322,950,000 Share Stapled Units representing approximately 5.03% of the issued number of Share Stapled Units as of January 5, 2012.

Save as disclosed above in this section, the Company and the Trustee-Manager had not been notified of any other persons (other than any Directors or the chief executive of the Company) who had an interest or a short position in the Share Stapled Units or in the shares, underlying shares or debentures of the Company as recorded in the register(s) required to be kept by the Company pursuant to Section 336 of the SFO as at December 31, 2011.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business (as defined in the Listing Rules) to which the Trustee-Manager, the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Except for contracts amongst PCCW and its subsidiaries, no other contract of significance in relation to the Trustee-Manager's business to which the Trustee-Manager was a party and in which a Trustee-Manager Director had a material interest, whether directly or indirectly, subsisted at the end of the period from June 14, 2011 (its date of incorporation) to December 31, 2011 or at any time during such period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2011, the interests of the Directors in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Li Tzar Kai, Richard

Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until August 16, 2000, the day before the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) became effective. HWL is a company listed on the Main Board of the Stock Exchange and has its own management team separate from the HKT Limited Group. HWL and its subsidiaries (the "Hutchison Group") are involved in the business of ports and related services, property and hotels, retail, energy, infrastructure, investments and others and telecommunications. Among others, the Hutchison Group operates GSM dual-band and 3G mobile telecommunications services in Hong Kong and the Macau Special Administrative Region of the People's Republic of China and provides fixed-line telecommunications services in Hong Kong. As such, certain businesses of the Hutchison Group compete with certain aspects of the business of the HKT Limited Group. Li Tzar Kai, Richard has a personal interest in 110,000 shares in HWL, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of HWL. Li Tzar Kai, Richard holds one-third of the issued share capital of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. In view of the above, the Directors consider that Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Group.

Lu Yimin and Li Fushen

Lu Yimin is an executive director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a director and President of China United Network Communications Limited and a director and President of China United Network Communications Corporation Limited.

Li Fushen is an executive director and Chief Financial Officer of China Unicom (Hong Kong) Limited. He is Vice President of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a director of China United Network Communications Limited and a director and Senior Vice President of China United Network Communications Corporation Limited.

China Unicom (Hong Kong) Limited is a company listed on the New York Stock Exchange and the Main Board of the Stock Exchange. 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#) is the ultimate parent company of China Unicom (Hong Kong) Limited and China United Network Communications Limited is a shareholder of China Unicom (Hong Kong) Limited. China United Network Communications Corporation Limited is a subsidiary of China Unicom (Hong Kong) Limited. China United Network Communications Limited is a company listed on Shanghai Stock Exchange. Save for Lu Yimin and Li Fushen, each of these companies has its own management team separate from the HKT Limited Group. These companies are involved in the business of provision of wireless, fixed-line, broadband, data and related value-added services and compete with certain aspects of the business of the HKT Limited Group. As Lu Yimin and Li Fushen are non-executive Directors who are not involved in the day-to-day management of the Trustee-Manager, the Company or any other member of the HKT Limited Group, the Directors consider that Lu Yimin and Li Fushen are not able to exert control or influence over the HKT Limited Group.

Each of Li Tzar Kai, Richard, Lu Yimin and Li Fushen has undertaken to the Trustee-Manager and the Company that they will continue to prominently disclose details of their interests as disclosed above and any change in details of such interests other than those disclosed in this annual report as required under rule 8.10(2)(a) of the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK$52,000.

For identification only

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Under the Trust Deed and for so long as the Trust Deed remains in effect, the Share Stapled Units cannot be repurchased or redeemed by the HKT Trust and the Company unless and until specific regulations which expressly permit repurchase or redemption are introduced by the Securities and Futures Commission. Therefore, the holders of Share Stapled Units have no right to request the Trustee-Manager to repurchase or redeem their Share Stapled Units, the HKT Trust and the Company are not allowed to repurchase their own Share Stapled Units.

For the period from the Listing Date to December 31, 2011, none of the HKT Trust (including the Trustee-Manager), the Company or the Company's subsidiaries purchased, sold or redeemed any Share Stapled Units.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, members of the HKT Limited Group have entered into various transactions prior to the Listing Date with PCCW and/or its other subsidiaries (collectively, the "PCCW Group"). These transactions constituted continuing connected transactions (as defined in the Listing Rules) for the HKT Limited Group after the Listing Date because PCCW is the controlling holder of the Share Stapled Units in issue and therefore a connected person (as defined in the Listing Rules) for the HKT Trust and the Company. The Trustee-Manager and the Company have applied for, and the Stock Exchange has granted to the Trustee-Manager and the Company, a waiver from strict compliance with the announcement requirement of the Listing Rules in respect of each of the transactions described in paragraphs (1) to (16) below. For the year ended December 31, 2011, the details of these transactions together with the relevant annual caps are set out as follows in accordance with the Listing Rules:

Services and floor space supplied by the HKT Limited Group to HKT Media Holdings Limited and its subsidiaries (collectively, the "Media Group")

(1) The provision of carriage services

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, and PCCW Media Limited, an indirect wholly-owned subsidiary of PCCW, entered into a carriage services agreement, pursuant to which Hong Kong Telecommunications (HKT) Limited has agreed to provide or procure the provision of carriage services to the Media Group to facilitate the Media Group's delivery of its pay television service to its customers. The agreement has an initial term from January 1, 2011 to December 31, 2013. The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(1) The provision of carriage services	11,853	172,700

(2) The provision of marketing and sales services

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into a marketing and sales services agreement, pursuant to which Hong Kong Telecommunications (HKT) Limited has agreed to market and sell Media Group products and services through the HKT Limited Group's direct marketing staff, front-line (i.e. on the street) sales teams, shops and via its call centres; and to provide a unified call-centre support service. This agreement is the reciprocal arrangement of the agreement referred to in paragraph (6) below. This agreement has an initial term from January 1, 2011 to December 31, 2013. The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(2) The provision of marketing and sales services	12,630	170,600

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services and floor space supplied by the HKT Limited Group to HKT Media Holdings Limited and its subsidiaries (collectively, the "Media Group") *(continued)*

(3) The provision of internal (specialist telecom) services

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into an internal (specialist telecom) services agreement, pursuant to which Hong Kong Telecommunications (HKT) Limited has agreed to procure that relevant members of the HKT Limited Group provide to the Media Group a range of specialised support services that are integral to the operation of the Media Group's business. The term of the agreement is for three years, effective from January 1, 2011 to December 31, 2013. The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(3) The provision of internal (specialist telecom) services	2,630	26,000

(4) Licensed access to floor space

Pursuant to a licence dated November 8, 2011, PCCW Media Limited has been afforded certain limited access rights to floor space for it and members of the Media Group at a number of the telephone exchanges and other premises under private treaty grants granted by the Government of Hong Kong ("PTG Telephone Exchanges"). The licence is for a fixed term expiring on December 31, 2013, although can be terminated earlier by either party on written notice. The licence fees paid by the Media Group are passed on by PCCW-HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of PCCW, to Hong Kong Telecommunications (HKT) Limited. In effect, therefore, these licensing arrangements are akin to direct arrangements between Hong Kong Telecommunications (HKT) Limited and the Media Group. For the purposes of Chapter 14A of the Listing Rules, the licensing of access rights to these particular floor spaces to the Media Group is being treated as continuing connected transactions between Hong Kong Telecommunications (HKT) Limited and the Media Group. The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(4) Licensed access to floor space	1,047	17,200

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Media Group to the HKT Limited Group

(5) Service packaging arrangements

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into a service packaging agreement. The agreement comprises two aspects:

- a mutual commitment to package the HKT Limited Group's products and services and the Media Group's products and services from time to time, from which results a dynamic and ongoing series of promotional packages (e.g. certain channels tied to a particular broadband purchasing commitment); and

- a commitment by the Media Group to provide customers of the HKT Limited Group with certain content services and products, the composition of which is agreed between the parties from time to time.

The agreement is for a three-year term effective from January 1, 2011 to December 31, 2013. The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(5) Service packaging arrangements	52,219	483,800

(6) The provision of marketing and sales services

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into a marketing and sales services agreement. This agreement represents the reciprocal arrangement to that provided for in the agreement described in paragraph (2) above. By this agreement, PCCW Media Limited agrees to procure that relevant members of the Media Group will market the products and services of the HKT Limited Group. The agreement has an initial term from January 1, 2011 to December 31, 2013. The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(6) The provision of marketing and sales services	1,162	13,800

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Media Group to the HKT Limited Group *(continued)*

(7) Content provision arrangements

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into a content services agreement, pursuant to which PCCW Media Limited has a first right of supply and agreed to supply, procure supply or provide content management and production support services to the HKT Limited Group for distribution through its eye and mobile platforms. The agreement is for a term of three years effective from January 1, 2011 to December 31, 2013. The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(7) Content provision arrangements	27,160	378,400

(8) Directories publishing arrangements

On November 8, 2011, PCCW Media Limited and Hong Kong Telecommunications (HKT) Limited entered into a directories publishing agreement for a three-year term effective from January 1, 2011 to December 31, 2013.

As an overall operator of the directories businesses, the Media Group has been granted an exclusive right and licence, amongst other things, to produce and publish the White Pages Business directory and the Fax directory in print and electronic format. The Media Group charges the HKT Limited Group on a cost basis, based on the number of directories printed, the number of delivery locations requested and the development and maintenance of electronic directories. The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(8) Directories publishing arrangements	–	2,000

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Media Group to the HKT Limited Group *(continued)*

(9) Pay TV set-top-box access agreement

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Media Limited entered into an agreement pursuant to which the HKT Limited Group pays the Media Group a monthly charge for the provision of 'user access' to certain services that are capable of being provided via the Media Group's set-top-boxes to customers subscribing for such services from the HKT Limited Group. The Media Group charges a market rate for such user-access rights. The agreement is for a three-year term effective from January 1, 2011 to December 31, 2013. The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(9) Pay TV set-top-box access agreement	88	900

Services and floor space supplied by the HKT Limited Group to HKT Solutions Holdings Limited and its subsidiaries (collectively, the "Solutions Group")

(10) Provision of managed services and other telecommunications related services

On December 23, 2008, Hong Kong Telecommunications (HKT) Limited and PCCW Solutions Limited, an indirect wholly-owned subsidiary of PCCW, entered into a managed wavelength service agreement, which was supplemented by a supplemental agreement between the same parties entered into on November 8, 2011 (together, the "managed services agreement"). Pursuant to the managed services agreement, Hong Kong Telecommunications (HKT) Limited has agreed to provide certain connectivity services to PCCW Solutions Limited, linking one of the Solutions Group's data centres in Hong Kong and certain designated sites based on an agreed bandwidth capacity and in accordance with other agreed services levels. Hong Kong Telecommunications (HKT) Limited provides the various services on normal commercial terms.

The managed services agreement runs for an initial term that expires on December 31, 2013 (although PCCW Solutions Limited has a right to terminate the agreement at any time on 30 days' prior written notice).

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW Solutions Limited entered into a telecommunications and other miscellaneous services agreement (the "telecommunications services agreement"). Pursuant to the telecommunications services agreement, Hong Kong Telecommunications (HKT) Limited and its specified affiliates in the HKT Limited Group have agreed to provide certain agreed telecommunications and related services to the Solutions Group on normal commercial terms. The telecommunications services agreement is for a three-year term expiring on December 31, 2013.

The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(10) Provision of managed services and other telecommunications related services	3,400	44,400

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services and floor space supplied by the HKT Limited Group to HKT Solutions Holdings Limited and its subsidiaries (collectively, the "Solutions Group") *(continued)*

(11) Licensed access to floor space

Pursuant to a licence dated November 8, 2011, PCCW Solutions Limited has been afforded certain limited access rights to floor space for it and members of the Solutions Group at a number of the PTG Telephone Exchanges. The licence is for a fixed term expiring on December 31, 2013, although can be terminated earlier by either party on written notice. The licence fees paid by the Solutions Group are passed on by HKTC to Hong Kong Telecommunications (HKT) Limited. In effect, therefore, these licensing arrangements are akin to direct arrangements between Hong Kong Telecommunications (HKT) Limited and the Solutions Group. For the purposes of Chapter 14A of the Listing Rules, the licensing of access rights to these particular floor spaces to the Solutions Group is being treated as continuing connected transactions between Hong Kong Telecommunications (HKT) Limited and the Solutions Group. The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(11) Licensed access to floor space	1,052	13,000

Services supplied by the Solutions Group to the HKT Limited Group

(12) Solutions services

The Solutions Group provides the following customised solutions to the HKT Limited Group pursuant to the following agreements:

(a) Outsourcing and Managed Services ("OMS")

Pursuant to a bureau services agreement dated November 8, 2011 between PCCW Solutions Limited and Hong Kong Telecommunications (HKT) Limited, PCCW Solutions Limited provides certain bureau services to Hong Kong Telecommunications (HKT) Limited and its designated affiliates. These services include help desk services, problem management, change management, system and database support, IT security services, data centre services, backup management, service level management, disaster recovery and technical platform services. The agreement runs for an initial term that expires on December 31, 2013.

(b) Systems Solutions Development and Integration ("SSDI")

Pursuant to two agreements dated November 8, 2011 each between PCCW Solutions Limited and Hong Kong Telecommunications (HKT) Limited, PCCW Solutions Limited provides the following services to Hong Kong Telecommunications (HKT) Limited and its designated affiliates:

- certain application management services (such as application support and maintenance, production acceptance testing and application release management); and
- certain system development services (such as IT system design, development and implementation).

Each of these agreements runs for an initial term that expires on December 31, 2013.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Solutions Group to the HKT Limited Group *(continued)*

(12) Solutions services *(continued)*

(c) BPO and Logistics ("BPOL")

Pursuant to nine agreements entered into and summarised below, Power Logistics Limited, a company in the Solutions Group, provides a range of different business processing, order fulfilment and logistical services to the HKT Limited Group.

Each of these agreements expires on December 31, 2013.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited, among other things: (a) manages a warehouse for mobile products; (b) provides stock management services; (c) packs and delivers mobile products; and (d) collects customer payments.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides logistics function, courier or delivery, storage and installation services for computer equipment to specified locations in Hong Kong.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides certain transportation services in Hong Kong.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides certain printing and lettershopping services for PCCW mobile prepaid SIM cards and plastic recharge vouchers.

- Agreement dated November 8, 2011 between Power Logistics Limited and HKT Services Limited:

  Power Logistics Limited provides certain back-up tape delivery services.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides certain service-premium delivery services.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides certain logistic services.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides a service for the mass distribution of printed telephone directories.

- Agreement dated November 8, 2011 between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited:

  Power Logistics Limited provides certain document imaging and data entry services.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Solutions Group to the HKT Limited Group *(continued)*

(12) Solutions services *(continued)*

The approximate aggregate values for the period from November 29, 2011 to December 31, 2011 and the annual caps for each of the categories (12) (a), (12) (b) and (12) (c) for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(12) (a) Bureau services agreement	110,300	422,300
OMS Total	110,300	422,300
(b) Application management services	7,910	67,000
System development services	4,990	43,100
SSDI Total	12,900	110,100
(c) Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding mobile products	479	8,200
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited for computer equipment	172	2,300
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding transportation services	414	2,300
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding printing and lettershopping services	149	1,600
Agreement between Power Logistics Limited and HKT Services Limited regarding back-up tape delivery services	2	20
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited for service-premium delivery services	1	10
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited for logistics services	9,936	108,700
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding mass distribution of printed telephone directories	–	49
Agreement between Power Logistics Limited and Hong Kong Telecommunications (HKT) Limited regarding document imaging and data entry services	7	100
BPOL Total	11,160	123,279
Solutions Group Total	134,360	655,679

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Solutions Group to the HKT Limited Group *(continued)*

(13) Sub-contracting agreement

On November 8, 2011, PCCW (Macau), Limitada ("PCCW Macau"), a company within the HKT Limited Group, and PCCW-HKT Technical Services Limited ("TSL"), an indirect wholly-owned subsidiary of PCCW, entered into a sub-contracting agreement. PCCW Macau has contracted with various third parties for the provision of solutions services with various operators in Macau such as IT related systems within casinos. Rather than performing the work itself, PCCW Macau has sub-contracted the work to TSL. Accordingly, the work is carried out by TSL and all fees received in respect of the work are passed on by PCCW Macau to TSL after PCCW Macau has deducted sub-contracting fees. The agreement is for a three-year term expiring on December 31, 2013.

The approximate aggregate values for the period from November 29, 2011 to December 31, 2011 and the annual caps for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(13) Contracted service cost from PCCW Macau to TSL	400	29,100
Sub-contracting fees from TSL to PCCW Macau	20	1,500

(14) The provision of corporate shared services

On November 8, 2011, HKT Services Limited, a company within the HKT Limited Group, and PCCW Services Limited, an indirect wholly-owned subsidiary of PCCW, entered into a corporate shared services agreement, pursuant to which HKT Services Limited and its affiliates have agreed to provide certain members of the PCCW Group a range of corporate support services that are integral to the operation of both groups, including managerial support.

The charges for these services are at cost. The term of the agreement is for three years, effective from January 1, 2011 to December 31, 2013.

The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(14) The provision of corporate shared services	3,604	156,900

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

(15) The provision of marketing and promotion services

On November 8, 2011, Hong Kong Telecommunications (HKT) Limited and PCCW-HKT Limited ("HKTL"), an indirect wholly-owned subsidiary of PCCW, entered into a marketing and promotion services agreement, pursuant to which Hong Kong Telecommunications (HKT) Limited has agreed to provide publicity, promotion and branding services to HKTL, including producing "i.Shop", a magazine produced each month to advertise the products and services of the PCCW Group, and other promotional activities. The services are charged on a cost basis. The term of the agreement is for three years, effective from January 1, 2011 to December 31, 2013.

The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(15) The provision of marketing and promotion services	3,785	48,500

(16) Licensing agreement (PCCW Tower)

PCCW Services Limited is the tenant in respect of certain space located at PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong, which it leases from an independent third party pursuant to a lease dated October 31, 2008. The lease expires on December 31, 2014. Under and subject to the terms of the lease, PCCW Services Limited is afforded the right to share the premises with its related companies, which include members of the HKT Limited Group. On June 22, 2010, PCCW Services Limited and HKT Services Limited entered into an agreement (which was supplemented by a further agreement between the same parties entered into on November 8, 2011) pursuant to which HKT Services Limited has been granted a licence to occupy certain floor space for office use for an aggregate amount (inclusive of licence fees, rates, management fees and other charges) estimated at HK$8.7 million per month, equating to HK$103.9 million per annum. The licence expires on June 21, 2013.

The approximate aggregate value for the period from November 29, 2011 to December 31, 2011 and the annual cap for the financial year ended December 31, 2011 are set out below:

Category	Approximate aggregate value for the period from November 29, 2011 to December 31, 2011 (HK$'000)	Annual cap for the financial year ended December 31, 2011 (HK$'000)
(16) Licensing agreement (PCCW Tower)	8,552	103,900

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the continuing connected transactions described in paragraphs (1) to (16) above entered into between the HKT Limited Group and the PCCW Group for the period from the Listing Date to December 31, 2011 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.38 of the Listing Rules.

The Company Board and the Trustee-Manager Board, including the independent non-executive directors, have reviewed and confirmed that the continuing connected transactions described in paragraphs (1) to (16) above were entered into:

(i) in the ordinary and usual course of business of the HKT Limited Group; and

(ii) either on normal commercial terms or on terms no less favourable to the HKT Limited Group than terms available to or obtained from independent third parties with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the holders of the Share Stapled Units as a whole.

The Trustee-Manager Board has also confirmed that the charges paid or payable out of the Trust Property (as defined in the Trust Deed) of the HKT Trust to the Trustee-Manager are in accordance with the Trust Deed; and they are not aware of any violation of duties of the Trustee-Manager which would have a materially adverse effect on the business of the HKT Trust or on the interests of all the holders of the Share Stapled Units as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 5 to the HKT Trust and HKT Limited consolidated financial statements. In relation to those related party transactions that constituted connected transactions under the Listing Rules, the relevant transactions comply with applicable requirements in accordance with the Listing Rules.

Details of the related party transactions of the Trustee-Manager are set out in note 4 to the financial statements of the Trustee-Manager.

PUBLIC FLOAT

As at the date of this report, the HKT Trust (including the Trustee-Manager) and the Company have maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and the Trustee-Manager and within the knowledge of the Directors.

AUDITOR

PricewaterhouseCoopers was appointed as the first auditor of the HKT Trust, the Company and the Trustee-Manager in 2011.

The HKT Trust and HKT Limited consolidated financial statements for the financial year ended December 31, 2011 and the financial statements of the Trustee-Manager for the period from June 14, 2011 (its date of incorporation) to December 31, 2011 have been audited by PricewaterhouseCoopers who will retire on conclusion of the forthcoming AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the HKT Trust, the Company and the Trustee-Manager is to be proposed at the forthcoming AGM.

On behalf of the boards of
HKT Limited and
HKT Management Limited
(in its capacity as the trustee-manager of the HKT Trust)

Philana WY Poon
Group General Counsel and Company Secretary
Hong Kong, February 27, 2012

INDEPENDENT AUDITOR'S REPORT TO THE HOLDERS OF SHARE STAPLED UNITS OF HKT TRUST AND HKT LIMITED

羅兵咸永道

TO THE HOLDERS OF SHARE STAPLED UNITS OF HKT TRUST AND HKT LIMITED
(HKT Trust is a trust constituted under the laws of Hong Kong; HKT Limited is incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of HKT Trust, HKT Limited (the "Company") and its subsidiaries (together the "Group") and of HKT Limited and its subsidiaries (the "HKT Limited Group") set out on pages 56 to 135 (together referred to as the "HKT Trust and HKT Limited consolidated financial statements"). As explained in note 1 to the HKT Trust and HKT Limited consolidated financial statements, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together. The HKT Trust and HKT Limited consolidated financial statements together comprise the consolidated balance sheet of the Group and of the HKT Limited Group and the balance sheet of HKT Limited as at December 31, 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group and of the HKT Limited Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the HKT Trust and HKT Limited Consolidated Financial Statements

The directors of HKT Management Limited (the "Trustee-Manager") (in its capacity as the trustee-manager of HKT Trust) and the directors of the Company are responsible for the preparation of consolidated financial statements for HKT Trust and for HKT Limited that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the HKT Trust and HKT Limited consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong

Opinion

In our opinion, the HKT Trust and HKT Limited consolidated financial statements give a true and fair view of the state of affairs of the Group and of the HKT Limited Group and HKT Limited as at December 31, 2011, and of the Group and HKT Limited Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 27, 2012

CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2011

In HK$ million	Note	2010	**2011**
Turnover	6 & 7	18,527	**19,825**
Cost of sales		(7,451)	**(8,149)**
General and administrative expenses		(8,131)	**(8,510)**
Other gains/(losses), net	8	40	**(28)**
Finance costs, net	10	(1,562)	**(1,504)**
Share of results of jointly controlled companies	20	(73)	**(2)**
Share of results of an associate		–	**(17)**
Profit before income tax	7 & 9	1,350	**1,615**
Income tax	12	(378)	**(344)**
Profit for the year		972	**1,271**
Attributable to:			
Holders of Share Stapled Units/shares of the Company		925	**1,221**
Non-controlling interests		47	**50**
		972	**1,271**
Earnings per Share Stapled Unit/share of the Company			
Basic and diluted	14	21.20 cents	**26.84 cents**

The notes on pages 63 to 135 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

Details of the final distribution/dividend payable to the holders of Share Stapled Units/shareholders attributable to the profit for the year are set out in note 13.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2011

In HK$ million	Note	2010	**2011**
Profit for the year		972	**1,271**
Other comprehensive income/(loss)			
Translation exchange differences:			
– exchange differences on translating foreign operations		147	**11**
Available-for-sale financial asset:			
– changes in fair value	21	(6)	**24**
Cash flow hedges:			
– effective portion of changes in fair value		25	**16**
– transfer from equity to consolidated income statement		(52)	**(12)**
Other comprehensive income for the year		114	**39**
Total comprehensive income for the year		1,086	**1,310**
Attributable to:			
– Holders of Share Stapled Units/shares of the Company		1,037	**1,260**
– Non-controlling interests		49	**50**
		1,086	**1,310**

The notes on pages 63 to 135 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2011

In HK$ million

	2010		
	Attributable to holders of Share Stapled Units/shares of the Company	Non-controlling interests	Total equity
At January 1, 2010	18,345	158	18,503
Total comprehensive income for the year	1,037	49	1,086
Dividend declared and paid to non-controlling shareholders of a subsidiary	–	(45)	(45)
Increase in ownership interest in a subsidiary *(note 38)*	(31)	–	(31)
At December 31, 2010	19,351	162	19,513

In HK$ million

	2011		
	Attributable to holders of Share Stapled Units/shares of the Company	**Non-controlling interests**	**Total equity**
At January 1, 2011	**19,351**	**162**	**19,513**
Total comprehensive income for the year	**1,260**	**50**	**1,310**
Capital contribution from the immediate holding company	**2,005**	**–**	**2,005**
Issue of ordinary and preference shares of the Company in exchange for the entire issued share capital of HKTGH	**(1,144)**	**–**	**(1,144)**
Transfer of business between related parties and the Groups in connection with the Reorganization	**348**	**–**	**348**
Issue of Share Stapled Units, net of issuance expenses	**8,944**	**–**	**8,944**
Distribution to equity owners	**(8)**	**–**	**(8)**
Dividend declared and paid to non-controlling shareholders of a subsidiary	**–**	**(35)**	**(35)**
At December 31, 2011	**30,756**	**177**	**30,933**

The notes on pages 63 to 135 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

CONSOLIDATED BALANCE SHEET OF HKT TRUST AND OF HKT LIMITED

As at December 31, 2011

In HK$ million	Note	2010	**2011**
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	14,322	**14,253**
Interests in leasehold land	16	329	**316**
Goodwill	17	35,892	**35,893**
Intangible assets	18	5,545	**4,872**
Interest in an associate	19	–	**95**
Interests in jointly controlled companies	20	474	**577**
Available-for-sale financial asset	21	48	**72**
Derivative financial instruments	25	152	**275**
Deferred income tax assets	29	3	**3**
Other non-current assets		448	**498**
		57,213	**56,854**
Current assets			
Prepayments, deposits and other current assets		2,045	**2,273**
Inventories	23(a)	832	**1,076**
Derivative financial instruments	25	17	**–**
Trade receivables, net	23(b)	2,104	**2,541**
Income tax recoverable		–	**68**
Cash and cash equivalents	31(c)	5,456	**2,226**
		10,454	**8,184**
Current liabilities			
Short-term borrowings	23(c)	7,800	**31**
Trade payables	23(d)	1,568	**1,532**
Accruals and other payables		2,019	**2,315**
Carrier licence fee liabilities	30	146	**190**
Amounts due to related companies	5(d)	58	**29**
Amounts due to fellow subsidiaries and the ultimate holding company	5(d)	4,045	**1,282**
Advances from customers		1,583	**1,483**
Current income tax liabilities		14	**–**
		17,233	**6,862**
Net current (liabilities)/assets		(6,779)	**1,322**
Total assets less current liabilities		50,434	**58,176**

CONSOLIDATED BALANCE SHEET OF HKT TRUST AND OF HKT LIMITED *(CONTINUED)*

As at December 31, 2011

In HK$ million	Note	2010	**2011**
Non-current liabilities			
Long-term borrowings	24	27,029	**23,470**
Derivative financial instruments	25	102	**–**
Deferred income tax liabilities	29	2,081	**1,991**
Deferred income		728	**893**
Carrier licence fee liabilities	30	924	**838**
Other long-term liabilities		57	**51**
		30,921	**27,243**
Net assets		19,513	**30,933**
Capital and reserves			
Issued capital	27	–	**6**
Retained profits	28	2,853	**4,066**
Other reserves	28	16,498	**26,684**
Equity attributable to holders of Share Stapled Units/shares of the Company		19,351	**30,756**
Non-controlling interests		162	**177**
Total equity		19,513	**30,933**

Approved and authorized for issue by the boards of directors of HKT Management Limited and HKT Limited (collectively, the "Boards") on February 27, 2012 and signed on behalf of the Boards by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 63 to 135 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

BALANCE SHEET OF HKT LIMITED

As at December 31, 2011

In HK$ million	Note	2011
ASSETS AND LIABILITIES		
Non-current assets		
Investment in subsidiaries	22	**19,837**
		19,837
Current assets		
Prepayments, deposits and other current assets		**1**
Amount due from a subsidiary	22(a)	**8,339**
Cash and cash equivalents	31(c)	**434**
		8,774
Current liabilities		
Accruals and other payables		**53**
Amount due to the ultimate holding company	5(d)	**71**
Amount due to the immediate holding company	5(d)	**917**
Current income tax liabilities		**1**
		1,042
Net current assets		**7,732**
Net assets		**27,569**
CAPITAL AND RESERVES		
Share capital		**6**
Reserves	27	**27,563**
Total equity		**27,569**

The notes on pages 63 to 135 form part of the consolidated financial statements of HKT Limited.

CONSOLIDATED STATEMENT OF CASH FLOWS OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2011

In HK$ million	Note	2010	**2011**
Net cash generated from operating activities	31(a)	6,239	**6,720**
Investing activities			
Proceeds from disposal of property, plant and equipment		6	**19**
Purchases of property, plant and equipment		(1,564)	**(1,569)**
Purchases of intangible assets		(1,058)	**(1,415)**
Acquisition of an associate		–	**(41)**
Loan to an associate		–	**(71)**
Contingent consideration paid for acquisition of a subsidiary		(85)	**–**
Loan to a jointly controlled company		(1)	**(41)**
Consideration paid to non-controlling interests for an increase in ownership interest in a subsidiary		(31)	**–**
Net cash used in investing activities		(2,733)	**(3,118)**
Financing activities			
Finance fees paid for new borrowings raised		(302)	**–**
New borrowings raised		15,557	**6,251**
Interest paid		(1,296)	**(1,362)**
Repayments of borrowings		(15,311)	**(17,972)**
Repayment of promissory note due to the immediate holding company		–	**(227)**
Loans from fellow subsidiaries and the ultimate holding company		1,133	**–**
Repayment of loans to fellow subsidiaries and the ultimate holding company		–	**(2,475)**
Distribution to equity owners		–	**(8)**
Dividend paid to non-controlling shareholders of a subsidiary		(45)	**(35)**
Proceeds from Share Stapled Units issued		–	**9,302**
Payments for issuance expenses		–	**(305)**
Net cash used in financing activities		(264)	**(6,831)**
Net increase/(decrease) in cash and cash equivalents		3,242	**(3,229)**
Exchange differences		(13)	**(1)**
Cash and cash equivalents			
Beginning of year		2,227	**5,456**
End of year	31(c)	5,456	**2,226**

The notes on pages 63 to 135 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

1 BASIS OF PRESENTATION

In accordance with Trust Deed (as defined below), HKT Trust (the "HKT Trust") and HKT Limited are each required to prepare their own sets of financial statements on a consolidated basis. The HKT Trust consolidated financial statements for the year ended December 31, 2011 comprise the consolidated financial statements of the HKT Trust, HKT Limited (or the "Company") and its subsidiaries (together the "Group"), and the Group's interests in an associate and jointly controlled companies. The HKT Limited consolidated financial statements for the year ended December 31, 2011 comprise the consolidated financial statements of HKT Limited and its subsidiaries (together the "HKT Limited Group") and the HKT Limited Group's interests in an associate and jointly controlled companies, and the Company's balance sheet.

The HKT Trust controls HKT Limited and the sole activity of the HKT Trust during the year ended December 31, 2011 was investing in HKT Limited. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of capital of HKT Limited. The Trustee-Manager (as defined below) and the directors of the Company believe therefore that it is clearer to present the consolidated financial statements of the HKT Trust and the HKT Limited together. The consolidated financial statements of the HKT Trust and the consolidated financial statements of HKT Limited are presented together to the extent they are identical and are hereinafter referred as the "HKT Trust and HKT Limited consolidated financial statements".

The consolidated income statements, consolidated statements of comprehensive income, consolidated balance sheets, consolidated statements of changes in equity, consolidated statements of cash flows, significant accounting policies and the related explanatory information are common to the HKT Trust and the Company. The HKT Limited consolidated financial statements also include the stand-alone balance sheet of HKT Limited, and the relevant explanatory information in notes 5(d), 22, 27, 31(c), and 33 where information specific to the Company are disclosed separately.

The Group and HKT Limited Group are referred as the "Groups".

2 GENERAL INFORMATION AND GROUP REORGANIZATION

(a) General Information

The HKT Trust is constituted by a Hong Kong law governed trust deed and as supplemented, amended or substituted from time to time (the "Trust Deed"), entered into between HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) and the Company. Under the Trust Deed, the Trustee-Manager has been appointed as the trustee and manager of the HKT Trust. The scope of activities of the HKT Trust specified in the Trust Deed is essentially limited to investing in the Company and all the issued and paid-up ordinary shares of the Company are held by the HKT Trust. The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law") on June 14, 2011. The Company has established a principal place of business in Hong Kong at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Hong Kong Companies Ordinance, Cap. 32. The HKT Limited Group is principally engaged in the provision of fixed core, mobile, local and international telecommunications services, Internet access services and the sale and rental of telecommunications equipment primarily in Hong Kong, and also in Mainland China (the "PRC") and elsewhere in the Asia Pacific region (the "Telecommunications Business").

The share stapled units (the "Share Stapled Units") structure comprises: (a) a unit in the HKT Trust; (b) a beneficial interest in a specifically identified ordinary share in the Company is linked to the unit and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the HKT Trust; and (c) a specifically identified preference share in the Company which is "stapled" to the unit. The Share Stapled Units are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on November 29, 2011 (the "Listing").

The ultimate holding company of both the HKT Trust and the Company is PCCW Limited ("PCCW"), a company incorporated in Hong Kong with its shares listed on the Main Board of the Stock Exchange and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States.

These financial statements are presented in millions of units of Hong Kong dollars (HK$ million), unless otherwise stated.

2 GENERAL INFORMATION AND GROUP REORGANIZATION *(CONTINUED)*

(b) Group Reorganization

In preparation for the Listing, a group reorganization (the "Reorganization") as summarized below was implemented by PCCW and the Group in November 2011.

(i) HKT Group Holdings Limited ("HKTGH"), which was an indirect wholly-owned subsidiary of PCCW, transferred businesses other than the Telecommunications Business to subsidiaries of PCCW through distribution of its interests in HKT Solutions Holdings Limited and thereby its subsidiaries (the "Solutions Group") and HKT Media Holdings Limited and thereby its subsidiaries (the "Media Group") to its immediate holding company, CAS Holding No. 1 Limited ("CAS No. 1");

(ii) Certain entities and assets that constitute businesses managed by management of the Telecommunications Business were transferred from the Solutions Group and the Media Group to subsidiaries of HKTGH;

(iii) Certain entities and assets that constitute businesses managed by management of the Solutions Group were transferred from subsidiaries of HKTGH to the Solutions Group;

(iv) The Company issued 4,363,361,192 ordinary shares and 4,363,361,192 preference shares, and a promissory note to CAS No. 1 in consideration of the transfer of all the shares in HKTGH held by CAS No. 1, representing 100% interest in HKTGH, to the Company. After the transfer, HKTGH became a direct wholly-owned subsidiary of the Company.

(v) The Company and the HKT Trust jointly issued Share Stapled Units to CAS No. 1 in consideration of the transfer of the entire interest in the Company, to the Trustee-Manager in its capacity as the trustee and manager of the HKT Trust. The transfer was completed on November 24, 2011 and the Company became an wholly-owned subsidiary of the HKT Trust.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the financial statements

Immediately prior to and after the Reorganization, the Telecommunications Business was held and conducted by HKTGH and its subsidiaries. Pursuant to the Reorganization, the Telecommunications Business was transferred to the HKT Trust and the Company. The HKT Trust and the Company were not involved in any other business prior to the Reorganization and the transfer of the Telecommunications Business did not meet the definition of a business combination. The Reorganization was merely a reorganization of the Telecommunications Business with no change in the management and the ultimate owners of the Telecommunications Business. Therefore, the HKT Trust and HKT Limited consolidated financial statements are presented using the carrying values of the Telecommunications Business as reported under HKTGH as if the current structure of the Groups had been in existence throughout the entire period presented.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following assets and liabilities are stated at fair value as explained in the accounting policies set out below:

– available-for-sale financial assets (see note 3(k)); and

– derivative financial instruments (see note 3(m)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the HKT Trust and HKT Limited consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Statement of compliance

The HKT Trust and HKT Limited consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term for all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have been prepared under the historical cost convention except for certain financial instruments which are stated at fair values, as explained in the significant accounting policies set out below.

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2011, but have no material effect on the Groups' results and financial position for the current and prior accounting periods.

- HKFRS 1 (Revised) (Amendments), 'First-time Adoption of Hong Kong Financial Reporting Standards'.
- HKAS 24 (Revised), 'Related Party Disclosures'.
- HKAS 32 (Amendments), 'Financial Instruments: Presentation'.
- HK(IFRIC) – Int 14 (Amendments), 'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.
- HK(IFRIC) – Int 19, 'Extinguishing Financial Liabilities with Equity Instruments'.
- Improvements to HKFRSs 2010 issued in May 2010 by the HKICPA.

The Groups have not adopted any new or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 39.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Groups. Control exists when the Groups have the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the HKT Trust and HKT Limited consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Groups.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Groups, whether directly or indirectly through subsidiaries, and in respect of which the Groups have not agreed any additional terms with the holders of those interests which would result in the Groups as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented within equity in the consolidated balance sheet and consolidated statement of changes in equity, separately from equity attributable to the holders of the Share Stapled Units and the shares of the Company. Non-controlling interests in the results of the Groups are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between non-controlling interests and the holders of the Share Stapled Units and the shares of the Company.

The Groups treat transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Groups. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of equity interests to non-controlling interests are also recorded in equity.

Where losses applicable to the non-controlling interests exceed the non-controlling shareholder's interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, are charged against the Groups' interest except to the extent that the non-controlling shareholder has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Groups' interest is allocated all such profits until the non-controlling shareholder's share of losses previously absorbed by the Groups have been recovered.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Subsidiaries and non-controlling interests *(continued)*

For subsidiaries which have accounting year ends different from the Groups, the subsidiaries prepare, for the purpose of consolidation, financial statements up to and as at the same date as the Groups.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the HKT Trust and HKT Limited consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment of the asset transferred.

(d) Associates

An associate is an entity in which the Groups have significant influence, but not control or joint control, over its management, including participating in the financial and operating policy decisions.

Interest in an associate is accounted for in the HKT Trust and HKT Limited consolidated financial statements under the equity method and is initially recorded at cost. The Groups' interest in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Groups' share of the associates' net assets. The consolidated income statement includes the Groups' share of post-acquisition, post-tax results of the associate and any impairment losses for the year. The consolidated statement of comprehensive income includes the Groups' share of the post-acquisition post-tax items of the associate's other comprehensive income.

When the Groups' share of losses exceeds its interest in the associate, the Groups' interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Groups have incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Groups' interest in the associate is the carrying amount of the investment under the equity method together with the Groups' long-term interests that in substance form part of the Groups' net interest in the associate.

Unrealized profits and losses resulting from transactions between the Groups and its associates are eliminated to the extent of the Groups' interest in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

In the consolidated balance sheet, interest in an associate is stated at cost less impairment losses (see note 3(l)(ii)). The results of the associate are accounted for by the Groups on the basis of dividends received and receivable.

(e) Jointly controlled companies

A jointly controlled company is an entity which operates under a contractual arrangement between the Groups and other parties, where the contractual arrangement establishes that the Groups and one or more of the other parties share joint control over the economic activity of the entity. The Groups have made investments in jointly controlled companies in the PRC in respect of which the partners' profit-sharing ratios during the joint venture period and share of net assets upon the expiration of the joint venture period may not be in proportion to their equity ratios, but are as defined in the respective joint venture contracts.

Investments made by means of joint venture structures where the Groups control the composition of the Boards or equivalent governing body and/or are in a position to exercise control over the financial and operating policies of the jointly controlled companies are accounted for as subsidiaries.

Investments in jointly controlled companies are accounted for in the HKT Trust and HKT Limited consolidated financial statements under the equity method and are initially recorded at cost. The Groups' investment in jointly controlled companies includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Groups' share of the jointly controlled companies' net assets. The consolidated income statement include the Groups' share of post-acquisition, post-tax results of the jointly controlled companies and any impairment losses for the year. The consolidated statement of comprehensive income include the Groups' share of the post-acquisition, post-tax items of the jointly controlled companies' other comprehensive income.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Jointly controlled companies *(continued)*

When the Groups' share of losses exceeds its interest in the jointly controlled company, the Groups' interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Groups' have incurred legal or constructive obligations or made payments on behalf of the jointly controlled company. For this purpose, the Groups' interest in the jointly controlled company is the carrying amount of the investment under the equity method together with the Groups' long-term interests that in substance form part of the Groups' net investment in the jointly controlled company.

Unrealized profits and losses resulting from transactions between the Groups and their jointly controlled companies are eliminated to the extent of the Groups' interest in the jointly controlled companies, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.

(f) Gaining or losing control or significant influence

When the Groups cease to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in investor profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Groups had disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(g) Property, plant and equipment

The following items of property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 3(l)(ii)):

– buildings held for own use which are situated on leasehold/freehold land, where the fair value of the building could be measured separately from the fair value of the leasehold/freehold land at the inception of the lease (see note 3(h)); and

– other items of plant and equipment.

The cost of an item of property, plant and equipment comprises (i) its purchase price, (ii) any directly attributable costs of bringing the asset to its working condition and location for its intended use, and (iii) the initial estimate at the time of installation and during the period of use, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognized as a separate item of property, plant and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Groups and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance and overhaul costs, are recognized in the consolidated income statement as an expense in the period in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in the consolidated income statement on the date of retirement or disposal.

Projects under construction are not depreciated. Depreciation on other property, plant and equipment is calculated to write off the cost of items of property, plant and equipment, less their expected residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 10 years
Transmission plant	5 to 30 years
Other plant and equipment	Over the shorter of 1 to 17 years and the term of lease

The assets' useful lives and residual values, if any, are reviewed, and adjusted if appropriate, at each balance sheet date.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Groups determine that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Groups

Leases which do not transfer substantially all the risks and rewards of ownership to the Groups are classified as operating leases.

(ii) Assets leased out under operating leases

Where the Groups leases out assets under operating leases, the assets are included in the consolidated balance sheet according to their nature and, where applicable, are depreciated in accordance with the Groups' depreciation policies, as set out in note 3(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(l)(ii). Revenue arising from operating leases is recognized in accordance with the Groups' revenue recognition policies, as set out in note 3(u)(iii).

(iii) Operating lease charges

Where the Groups have the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognized in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is stated in the consolidated balance sheet as "Interests in leasehold land" and is amortized to the consolidated income statement on a straight-line basis over the period of the lease term.

(i) Goodwill

Goodwill represents the excess of the cost of a business combination or interest in an associate or in jointly controlled companies over the Groups' interest in the aggregate net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated balance sheet at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see note 3(l)(ii)). In respect of jointly controlled companies and an associate, the carrying amount of goodwill is included in the carrying amount of the interest in jointly controlled companies and an associate respectively.

On disposal of a CGU or part of a CGU, a jointly controlled company and an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(j) Intangible assets (other than goodwill)

(i) Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalized if it is probable that future economic benefits will flow from the customers to the Groups and such costs can be measured reliably. Capitalized customer acquisition costs are amortized on a straight-line basis over the minimum enforceable contractual periods. By the end of the minimum enforceable contractual period, fully amortized customer acquisition costs will be written off.

In the event that a customer terminates the contract prior to the end of the minimum enforceable contractual period, the unamortized customer acquisition cost will be written off immediately in the consolidated income statement.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) Intangible assets (other than goodwill) *(continued)*

(ii) Carrier licences

The carrier licences to establish and maintain the telecommunication network and to provide telecommunication services are recorded as intangible assets. Upon the issuance of the licence, the cost thereof, which is the discounted value of the minimum annual fees payable over the period of the licence and directly attributable costs of preparing the asset for its intended use, is recorded together with the related obligations. Where the Groups have the right to return a licence and expect to do so, the asset and the related obligation recorded reflect the expected period that the licence will be held. Amortization is provided on a straight-line basis over the estimated useful life of the licence as follows:

Mobile carrier licence for third generation ("3G") services ("3G licence")	Over the remaining term of licence
Personal communications service licence ("2G licence")	Over the shorter of 5 years or the remaining term of licence
Mobile carrier licence CDMA 2000 licence No.99 ("CDMA licence")	Over the term of the licence
Unified carrier licence	Over the term of the licence

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using the effective interest method.

Variable annual payments on top of the minimum annual payments, if any, are recognized in the consolidated income statement as incurred.

(iii) Other intangible assets

Other intangible assets that are acquired by the Groups are stated in the consolidated balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 3(l)(ii)). Expenditures on internally generated goodwill and brands are recognized as expenses in the period in which they are incurred.

Amortization of intangible assets with finite useful lives is charged to the consolidated income statement on a straight-line basis over their estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

Trademarks	20 years
Customer base	1 to 10 years

The assets' useful lives and their amortization method are reviewed annually.

(k) Investments in equity securities

The Groups classify its investments in equity securities, other than interests in subsidiaries and interests in jointly controlled companies and an associate, as available-for-sale financial assets.

Investments in equity securities are initially recognized at fair value plus transaction costs, except as indicated otherwise below. The fair value of quoted investments is based on current bid price.

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets at fair value through profit and loss, held-to-maturity investments and loans and receivables. They are included in non-current assets unless the Groups intend to dispose of the investment within 12 months from the balance sheet date.

At each balance sheet date, the fair value of available-for-sale financial assets is re-measured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 3(l)(i)) and, in the case of monetary items, foreign exchange gains and losses which are recognized directly in the consolidated income statement. Dividend income from these investments is recognized in the consolidated income statement in accordance with the policy set out in note 3(u)(vii). When the investments are derecognized or impaired (see note 3(l)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the consolidated income statement.

Investments in equity securities are recognized or derecognized on the date the Groups commit to purchase or sell the investments or they expire.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries and interests in jointly controlled companies and an associate: see note 3(l)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Groups about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

If any such evidence exists, any impairment loss is determined and recognized as follows:

- For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

- For available-for-sale financial assets, when there is an impairment, the cumulative loss, if any, that had been recognized directly in the available-for-sale financial assets reserve under equity is removed from equity and is recognized in the consolidated income statement. The amount of the cumulative loss that is recognized in the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in the consolidated income statement.

  Impairment losses recognized in the consolidated income statement in respect of equity instruments classified as available-for-sale financial assets are not reversed through the consolidated income statement. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade receivables, whose recovery are considered doubtful but not remote. In this case, the impairment loss for doubtful debts is recorded using an allowance account. When the Groups are satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in the consolidated income statement.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land;
- goodwill;
- intangible assets; and
- interests in an associate and jointly controlled companies.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount
  The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

- Recognition of impairment losses
  An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses
  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not allowed to be reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the consolidated income statement in the period in which the reversals are recognized.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(m) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. The gain or loss on remeasurement to fair value is recognized immediately in the consolidated income statement, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 3(n)).

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item has a maturity of more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

(n) Hedging

(i) Fair value hedge

Where a derivative financial instrument is designated as a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (or an identified portion of such asset, liability or firm commitment), changes in the fair value of the derivative are recorded in the consolidated income statement within “Finance costs, net”, together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Groups revoke designation of the hedge relationship, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the consolidated income statement over the residual period to maturity.

(ii) Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated separately in the hedging reserve under equity. The ineffective portion of any gain or loss is recognized immediately in the consolidated income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated cumulative gain or loss is removed from equity and recognized in the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement (such as when the interest income or expense is recognized).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognized in the consolidated income statement in the same period or periods during which the hedged forecast transaction affects the consolidated income statement.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Groups revoke designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealized gain or loss recognized in equity is recognized immediately in the consolidated income statement.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(o) Inventories

Inventories consist of trading inventories, work-in-progress and consumable inventories.

Trading inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Work-in-progress is stated at the lower of cost, which comprises labor, materials and overheads where appropriate, and the net realizable value.

Consumable inventories, held for use in the maintenance and expansion of the Groups' 'telecommunications systems, are stated at cost less provision for deterioration and obsolescence.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(p) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(l)(i)).

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions (other than restricted cash), and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition, less bank overdrafts that are repayable on demand and form an integral part of the Groups' cash management.

(r) Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost using the effective interest method.

(s) Borrowings

Borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortized cost with any difference between the amount initially recognized, being the proceeds net of transaction costs, and the redemption value being recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

(t) Provisions and contingent liabilities

Provisions are recognized when (i) the Groups have a present legal or constructive obligation arising as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. The increase in provision due to the passage of time is recognized as interest expense.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Groups and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the consolidated income statement as follows:

(i) Telecommunications and other services

Telecommunications services comprise the fixed line and mobile telecommunications network services, and equipment businesses mainly in Hong Kong.

Telecommunications service revenue based on usage of the Groups' network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the applicable fixed period.

Up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the estimated customer relationship period.

Other service income is recognized when services are rendered to customers.

(ii) Sales of goods

Revenue from the sales of goods is recognized when goods are delivered to customers which generally coincides with the time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recorded after deduction of any trade discounts.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognized in the consolidated income statement in equal installments over the periods covered by the lease term. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

(iv) Contract revenue

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable.

(v) Interest income

Interest income is recognized on a time-apportioned basis using the effective interest method.

(vi) Commission income

Commission income is recognized when entitlement to the income is ascertained.

(vii)Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

(v) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Discounts or premiums relating to borrowings, and ancillary costs incurred in connection with arranging borrowings, to the extent that they are regarded as adjustments to interest costs, are recognized as expenses over the period of the borrowing using the effective interest method.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Income tax

(i) Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Current income tax and movements in deferred income tax assets and liabilities are recognized in the consolidated income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts are recognized in other comprehensive income or directly in equity, respectively.

(ii) Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to income tax payable in respect of previous year.

(iii) Deferred income tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred income tax assets also arise from unused tax losses and unused tax credits.

All deferred income tax liabilities, and all deferred income tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognized. Future taxable profits that may support the recognition of deferred income tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred income tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred income tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred income tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized and the deferred income tax liability is settled. Deferred income tax assets and liabilities are not discounted.

The carrying amount of a deferred income tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the Groups have the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:

- in the case of current income tax assets and liabilities, the Groups intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Employee benefits

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Retirement benefits

The Groups operate defined contribution retirement schemes (including the Mandatory Provident Fund) for its employees, the assets of which are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant companies in the Groups and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries.

The Groups' contributions to the defined contribution schemes are recognized as an expense in the consolidated income statement in the period to which the contributions relate.

(iii) Share-based payments

PCCW and the Groups operate share option schemes where employees of the Groups (and including directors) are granted options to acquire shares of PCCW and Share Stapled Units at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognized as staff costs in the consolidated income statement with a corresponding increase in capital contribution from shareholder in respect of employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the capital contribution reserve/share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital contribution reserve/share-based compensation reserve). The equity amount is recognized in the capital contribution reserve until the share options expire when it is released directly to retained profits or deficit.

The board of directors of PCCW and directors of the Trustee-Manager and the Company may also grant shares of PCCW and Share Stapled Units to employees of the participating subsidiaries of PCCW and the Groups at nil consideration under its share award schemes, under which the awarded shares are either newly issued at par value (the "Subscription Scheme") or are purchased from the open market (the "Purchase Scheme").

For the Subscription Scheme, it is accounted for as equity-settled share-based payment. The fair value of the awarded shares is measured by the quoted market price of PCCW shares and Share Stapled Units at grant date. The fair value of the employee services received in exchange for the grant of shares is recognized as staff costs in the consolidated income statement over the respective vesting period with a corresponding increase in the capital contribution from shareholder in respect of employee share-based compensation reserve under equity.

For the Purchase Scheme, it is accounted for as cash-settled share-based payment. The fair value of the awarded shares represents the cost of PCCW shares and Share Stapled Units purchased from the open market and is recognized in current assets as prepayment. The fair value of the employee services received in exchange for the grant of shares is recognized as staff costs in the consolidated income statement over the respective vesting period with a corresponding decrease in prepayment.

Shares of PCCW and Share Stapled Units granted to employees of the Groups by the principal shareholder of PCCW and the Groups are accounted for in accordance with the same policy for the awarded shares under share award schemes as described above. The fair value of the shares granted by principal shareholder is measured by the quoted market price of the shares at grant date and is charged to the consolidated income statement over the respective vesting period, with a corresponding increase in the capital contribution from shareholder in respect of employee share-based compensation under equity.

(iv) Termination benefits

Termination benefits are recognized only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the numbers of employees affected, or, after individual employees have been advised of the specific terms.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(y) Translation of foreign currencies

Items included in the financial statements of each of the Groups' entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The HKT Trust and HKT Limited consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Groups' functional and the Groups' presentation currency.

Foreign currency transactions during the year are translated to functional currencies at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in the consolidated income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. Exchange differences arising on translation of non-monetary assets and liabilities are reported as part of the fair value gain or loss in the consolidated income statement. Exchange differences arising on translation of non-monetary assets and liabilities, such as available-for-sale financial assets, are included in the fair value gain or loss in the available-for-sale financial assets reserve under equity.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items of foreign operations, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, if any, are taken to other comprehensive income and accumulated separately in the currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in the currency translation reserve under equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(z) Related parties

For the purposes of the HKT Trust and HKT Limited consolidated financial statements, a party is considered to be related to the Groups if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Groups or exercise significant influence over the Groups in making financial and operating policy decisions, or has joint control over the Groups;

(ii) the Groups and the party are subject to common control;

(iii) the party is an associate of the Groups or a joint venture in which the Groups is a venturer;

(iv) the party is a member of key management personnel of the Groups or the Groups' parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) above or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Groups or of any entity that is a related party of the Groups.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(aa)Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Groups senior executive management.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses and segment performance include transactions between segments. Inter-segment pricing is based on similar terms as those available to other external parties for similar services. Inter-segment transactions are eliminated in full in preparing the HKT Trust and HKT Limited consolidated financial statements.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (including property, plant and equipment, and interests in leasehold land) that are expected to be used for more than one year.

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.

Key sources of estimation uncertainty

The Groups make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 17 and 33 contains information about the assumptions and the risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are discussed below:

(i) Recognition and fair value of identifiable intangible assets through business combination

The Groups apply the acquisition method of accounting to account for acquisitions of businesses. In business combinations of multiple companies or businesses, HKFRS 3 or HKFRS 3 (revised), "Business Combinations", requires that one of the businesses that existed before the combination shall be identified as the accounting acquirer on the basis of the evidence available. Identification of the accounting acquirer requires significant judgement and it involves the considerations of the relative size of the combining businesses' revenues and assets and the management structure to determine the appropriate accounting acquirer.

The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, equity instruments issued, and costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair values as of the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgement. The most significant variables in these valuations are discount rates, terminal values, the number of years on which the cash flow projections are based, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. Although the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

Upon an acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognized). The fair values of these intangible assets are dependent on estimates of attributable future revenue, margin, cashflow, useful lives and discount rate used.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

(ii) Impairment of assets (other than investments in equity securities and other receivables)

At each balance sheet date, the Groups review internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land;
- goodwill;
- intangible assets; and
- interests in jointly controlled companies and an associate.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The sources utilized to identify indications of impairment are often subjective in nature and the Groups are required to use judgement in applying such information to its business. The Groups' interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date. Such information is particularly significant as it relates to the Groups' telecommunications services and infrastructure businesses in Hong Kong.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Groups to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Groups' assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Groups may perform such assessment utilizing internal resources or the Groups may engage external advisors to counsel the Groups in making this assessment. Regardless of the resources utilized, the Groups required to make many assumptions to make this assessment, including the utilization of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

(iii) Revenue recognition

Telecommunications service revenue based on usage of the Groups' network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the respective period. In addition, up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the expected customer relationship period. The Groups are required to exercise considerable judgement in revenue recognition particularly in the areas of customer discounts and customer disputes. Significant changes in management estimates may result in material revenue adjustments.

The Groups offer certain arrangements whereby a customer can purchase telecommunications equipment together with a fixed period of telecommunications service arrangement. When such multiple-element arrangements exist, the amount recognized as revenue upon the sale of the telecommunications equipment is the fair value of the equipment in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement taken as a whole, is recognized over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

(iii) Revenue recognition *(continued)*

Where the Groups are unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Groups determine the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

(iv) Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, the Groups consider future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Groups' estimate of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Groups' ability to utilise the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

(v) Current income tax

The Groups make a provision for current income tax based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Groups. Nevertheless, from time to time, there are cases of disagreements with the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Groups consider it probable that these disputes or judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

(vi) Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Groups have significant property, plant and equipment and intangible assets (other than goodwill). The Groups are required to estimate the useful lives of property, plant and equipment and intangible assets (other than goodwill) in order to ascertain the amount of depreciation and amortization charges for each reporting period.

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Groups' strategies. The Groups perform annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Groups extend or shorten the useful lives and/or makes impairment provisions according to the results of the review.

(vii) Recognition of intangible asset – carrier licences

In order to measure the intangible assets, HKAS 39 "Financial Instruments: Recognition and Measurement" is applied for recognition of the minimum annual fee and royalty payments as they constitute contractual obligations to deliver cash and, hence, should be considered as financial liabilities. To establish the fair value of the minimum annual fee and royalty payments for the right of use of the carrier licences, the discount rate used is an indicative incremental borrowing rate estimated by the Groups. Had a different discount rate been used to determine the fair value, the Groups result of operations and financial position could be materially different.

5 RELATED PARTY TRANSACTIONS

PCCW is the controlling holder of Share Stapled Units.

CAS No. 1 and PCCW are the immediate and ultimate holding companies of the Company respectively.

Related party group:

(1) PCCW together with its direct and indirect subsidiaries excluding the Groups (the "PCCW Group").

(2) Other holders of Share Stapled Units/shares of the Company or other shareholders of the PCCW Group:

(a) HKSCC Nominees Limited.

(b) 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#) together with its direct and indirect subsidiaries.

The Groups are of the view that the following companies were related parties that had transactions or balances with the Groups during the year:

Company name	Relationship with the Groups
Asia Netcom Asia Pacific Commercial Limited	Related party
Asia Netcom Asia Pacific Limited	Related party
Asia Netcom Hong Kong Limited	Related party
Asia Netcom USA Inc	Related party
北京京威房地產開發有限公司 (Beijing Jing Wei House and Land Estate Development Co., Ltd.#)	PCCW Group
China Netcom (Group) Company Limited	Related party
China Netcom (HK) Operations Limited	Related party
China Netcom Broadband Corporation Limited	Related party
China Netcom Corporation Limited	Related party
China Unicom (China Netcom (Group) Company Limited (Beijing Branch))	Related party
China Unicom International Limited	Related party
China Unicom USA Corporation	Related party
Cyber-Port Management Limited	PCCW Group
GuangDong Province Telecom Limited	Related party
Hong Kong Cyberport Management Company Limited	Related party
New PCGJ Co. Ltd	Related party
Pacific Century Matrix (HK) Limited	Related party
Pacific Century Premium Developments Limited	PCCW Group
Pacific Century Region Development Services Pte Limited	Related party
PCCW Media Limited	PCCW Group
PCCW Services Limited	PCCW Group
PCCW Solutions Limited	PCCW Group
PCCW-HKT Business Services Limited	PCCW Group
PCCW-HKT Limited	PCCW Group
Power Logistics Limited	PCCW Group
Reach Global Networks Limited	Jointly controlled company
Telstra International Limited (formerly known as Reach Global Services Limited)	Jointly controlled company
Reach International Telecom (Singapore) Pte Limited	Jointly controlled company
Reach Ltd.	Jointly controlled company
Reach Network Services Hong Kong Limited	Jointly controlled company
Reach Networks Hong Kong Limited	Jointly controlled company
Shanghai Telecom Limited	Related party
Talent Master Investments Limited	PCCW Group
UK Broadband Limited	PCCW Group
中國網通集團研究院	Related party
深圳電信培訓中心	Related party

For identification only

5 RELATED PARTY TRANSACTIONS *(CONTINUED)*

During the year, the Groups carried out the following transactions with the related parties:

(a) Sales/purchases of services
Continuing transactions

In HK$ million	The Groups 2010	2011
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder of PCCW	149	**234**
Telecommunications service fees paid or payable to a substantial shareholder of PCCW	161	**254**
Telecommunications service fees received or receivable from a jointly controlled company	52	**43**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company	499	**292**
Telecommunications service fees, IT and logistics charge, management fee and other costs recharge received or receivable from fellow subsidiaries	590	**608**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to fellow subsidiaries	1,318	**1,587**
Insurance premium paid or payable to a fellow subsidiary	15	**–**
Key management compensation	–	**15**
	2,784	**3,033**

(b) Sales/purchases of services
Discontinuing transactions

In HK$ million	The Groups 2010	2011
Telecommunications service fees, IT and logistics charge, consultancy fee, management fee and other costs recharge received or receivable from fellow subsidiaries	188	**239**
Rental and facilities management charges paid or payable to fellow subsidiaries	3	**–**
Telecommunications service fees received or receivable from a fellow subsidiary	–	**93**
Cost recharge received or receivable from the ultimate holding company	1	**–**
	192	**332**

In addition to the above, a jointly controlled company (the "JV") issued to the Groups a credit note in the amount of approximately HK$491 million in settlement of the Groups' claim against the JV. Accordingly, the Groups recorded credits to revenue, costs of sales, operating expenses and an increase in amounts due to the ultimate holding company and fellow subsidiaries in the amounts of approximately HK$339 million, HK$97 million, HK$29 million and HK$26 million respectively.

5 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Acquisition/disposals of assets and companies

In HK$ million		The Groups 2010	2011
Disposal of subsidiaries and transfer of interests in leasehold land and property, plant and equipment to a fellow subsidiary	(i)	138	**–**
Acquisition of a jointly controlled company and an available-for-sale financial asset from a fellow subsidiary	(ii)	341	**–**
Acquisition of a jointly controlled company from the ultimate holding company	(iii)	–	**71**

(i) Effective on September 30, 2010, the Groups sold all its interest in two of its subsidiaries, and transferred its interests in certain leasehold land and property, plant and equipment to fellow subsidiaries at a consideration of approximately HK$94 million and HK$44 million respectively.

(ii) Effective on January 1, 2010, the Groups acquired a jointly controlled company from a fellow subsidiary at a consideration of approximately HK$287 million. Effective on May 31, 2010, the Groups acquired an available-for-sale financial asset from a fellow subsidiary at its fair value of HK$54 million.

(iii) During the year ended December 31, 2011, PCCW transferred Pacific Century Cable Holdings Limited, a company within the PCCW Group, and thereby its 50% interest in Reach Ltd., to the Groups. The consideration for this transfer of HK$70.6 million, being an amount equal to the fair market value of Pacific Century Cable Holdings Limited, was settled on the basis of an inter-company balance left outstanding. Reach Ltd. is a 50/50 joint venture formed in 2000 between PCCW and Telstra Corporation Limited ("Telstra") and provides international communications infrastructure services, principally to PCCW and Telstra.

(iv) During the year ended December 31, 2011, PCCW, Telstra Corporation Limited ("Telstra") and the JV completed certain transactions which resulted in the transfer by PCCW and Telstra the majority of the JV's assets, business platforms and operations. The Groups received assets and businesses from the JV valued at approximately HK$644 million. The consideration was settled in part by a credit note received from the JV in the sum of approximately HK$491 million and in part by offset against the inter-company balance between the Groups and PCCW. As a result, the Groups recorded an increase in amount due to the ultimate holding company of HK$153 million.

The above transactions were carried out after negotiations between the Groups and the related parties in the ordinary course of business and on the basis of estimated market value as determined by the directors. In respect of transactions for which the price or volume has not yet been agreed with the relevant related parties, the directors have determined the relevant amounts based on their best estimation.

5 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(d) Balances with the ultimate holding company, related companies and fellow subsidiaries

The balances included in the net amounts due to the ultimate holding company and fellow subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms, except for the loans payable to fellow subsidiaries amounting to US$3 million and HK$85 million as at December 31, 2010 are interest bearing at London Interbank Offered Rate ("LIBOR") and Hong Kong Interbank Offered Rate ("HIBOR") plus 1.95% respectively; and the loans payable to the ultimate holding company amounting to HK$5,014 million as at December 31, 2010 are interest bearing at HIBOR.

The balances included in the net amounts due to the ultimate holding company and fellow subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms as at December 31, 2011.

The balances included in the net amount due to related companies are unsecured, non-interest bearing and have no fixed repayment terms as at December 31, 2010 and 2011.

In HK$ million	The Groups		The Company
	2010	**2011**	**2011**
Amounts due to the ultimate holding company			
– Trade balance	–	**–**	**–**
– Non-trade balance	(4,951)	**–**	**(71)**
Amounts due from/(to) the fellow subsidiaries			
– Trade balance	102	**(365)**	**–**
– Non-trade balance	804	**–**	**–**
Promissory note due to the immediate holding company	–	**(917)**	**(917)**
	(4,045)	**(1,282)**	**(988)**
Amounts due to related companies			
– Trade balance	(58)	**(29)**	**–**
– Non-trade balance	–	**–**	**–**
	(58)	**(29)**	**–**

(e) Key management compensation

The Directors of the Groups, being the key management personnel, received remuneration from the Groups' fellow subsidiaries in respect of their services to PCCW and its subsidiaries during the year ended December 31, 2010. The amounts paid by the fellow subsidiaries have not been allocated between their services to the Groups and the PCCW Group, as there is no arrangement to recharge the Groups such expenses and it is not meaningful to perform a retrospective allocation of the services rendered by the Directors to the various group companies within the PCCW Group.

6 TURNOVER

In HK$ million	The Groups 2010	2011
Telecommunications and other service revenue	15,813	**17,025**
Sales of goods	2,689	**2,776**
Rental income	25	**24**
	18,527	**19,825**

7 SEGMENT INFORMATION

The CODM is the Groups' senior executive management collectively. The CODM reviews the Groups' internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM considers the business from both geographic and product perspectives. From a product perspective, management assesses the performance of the following segments:

– Telecommunications Services ("TSS") is the leading provider of telecommunications products and services including local telephony, broadband access services, local and international data, international direct dial, sales of equipment, technical, maintenance and subcontracting services and teleservices businesses.

– Mobile includes the Groups' mobile telecommunications businesses in Hong Kong.

– Other businesses of the Groups primarily comprise Unihub China Information Technology Company Limited ("ZhongYing JV"), which provides network integration and related services to telecommunications operators in the PRC.

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization ("EBITDA"). EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in an associate and jointly controlled companies and the Groups' share of results of an associate and jointly controlled companies.

Segment revenue, expense and segment performance include transactions between segments. Inter-segment pricing is based on similar terms as those available to other external parties for similar services. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

7 SEGMENT INFORMATION *(CONTINUED)*

Information regarding the Groups' reportable segments as provided to the Groups' CODM is set out below:

In HK$ million	The Groups 2010 TSS	Mobile	Other businesses	Eliminations	Total
Revenue					
External revenue	16,021	1,709	797	–	18,527
Inter-segment revenue	202	–	–	(202)	–
Total revenue	16,223	1,709	797	(202)	18,527
Results					
EBITDA	6,997	355	(103)	–	7,249
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions through acquisition of businesses and subsidiaries	1,316	201	96	–	1,613

In HK$ million	The Groups **2011** **TSS**	**Mobile**	**Other businesses**	**Eliminations**	**Total**
Revenue					
External revenue	**17,048**	**1,967**	**810**	**–**	**19,825**
Inter-segment revenue	**247**	**–**	**–**	**(247)**	**–**
Total revenue	**17,295**	**1,967**	**810**	**(247)**	**19,825**
Results					
EBITDA	**7,005**	**510**	**(104)**	**–**	**7,411**
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions through acquisition of businesses and subsidiaries	**1,341**	**198**	**61**	**–**	**1,600**

7 SEGMENT INFORMATION *(CONTINUED)*

A reconciliation of total segment EBITDA to profit before income tax is provided as follows:

In HK$ million	The Groups 2010	**2011**
Total segment EBITDA	7,249	**7,411**
Gain on disposal of property, plant and equipment, net	14	**5**
Depreciation and amortization	(4,318)	**(4,250)**
Other gains/(losses), net	40	**(28)**
Finance costs, net	(1,562)	**(1,504)**
Share of results of jointly controlled companies	(73)	**(2)**
Share of results of an associate	–	**(17)**
Profit before income tax	1,350	**1,615**

The following table sets out information about the geographical location of the Groups' revenue from external customers. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

In HK$ million	The Groups 2010	**2011**
Hong Kong (place of domicile)	15,527	**16,664**
The PRC (excluding Hong Kong) and Taiwan	1,243	**1,477**
Others	1,757	**1,684**
	18,527	**19,825**

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK$56,504 million as at December 31, 2011 (2010: HK$54,485 million). And the total of these non-current assets located in other countries are HK$2,806 million as at December 31, 2011 (2010: HK$2,525 million).

8 OTHER GAINS/(LOSSES), NET

In HK$ million	The Groups 2010	**2011**
Net (loss)/gain on cash flow hedging instruments transferred from equity	(1)	**1**
Net realized gain on disposal of subsidiaries	41	**–**
Impairment loss on interest in a jointly controlled company	–	**(16)**
Others	–	**(13)**
	40	**(28)**

9 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging and crediting the following:

(a) Staff costs

In HK$ million	The Groups 2010	**2011**
Salaries, bonuses and other benefits	1,420	**1,439**
Retirement costs for staff under defined contribution retirement schemes	169	**181**
	1,589	**1,620**

(b) Other items

In HK$ million	The Groups 2010	**2011**
Crediting:		
Gross rental income	25	**24**
Gain on disposal of property, plant and equipment	14	**5**
Charging:		
Impairment loss on doubtful debts	97	**125**
Provision for inventory obsolescence	9	**7**
Depreciation of property, plant and equipment	2,342	**2,252**
Operating costs of property, plant and equipment, net	83	**436**
Amortization of land lease premium	13	**13**
Amortization of intangible assets	1,963	**1,985**
Cost of inventories sold	2,510	**2,871**
Cost of sales, excluding inventories sold	4,941	**5,278**
Exchange losses, net	61	**7**
Less: Cash flow hedges: transferred from equity	(54)	**(11)**
Auditor's remuneration	7	**10**
Operating lease rental		
– equipment	22	**14**
– other assets (including property rentals)		
– recorded under general and administrative expenses	427	**509**
– recorded under cost of sales	68	**86**

10 FINANCE COSTS, NET

In HK$ million	The Groups 2010	2011
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	(446)	**(458)**
Bank borrowings not wholly repayable within 5 years	(52)	**–**
Other borrowings wholly repayable within 5 years	(990)	**(1,026)**
Other borrowings not wholly repayable within 5 years	(39)	**–**
Notional accretion on carrier licence fee liabilities	(68)	**(74)**
Other borrowing costs	(16)	**(12)**
Cash flow hedges: transferred from equity	(1)	**(1)**
Fair value (losses)/gains on derivative financial instruments on fair value hedges	(88)	**198**
Fair value adjustment of borrowings attributable to interest rate risk	80	**(202)**
	(1,620)	**(1,575)**
Interest capitalized in property, plant and equipment	49	**31**
Total finance costs	(1,571)	**(1,544)**
Interest income		
Interest income on short-term bank deposits	9	**40**
Finance costs, net	(1,562)	**(1,504)**

The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 4.43% to 6.22% for the year ended December 31, 2011 (2010: 6.33% to 7.03%).

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments – cash and cash equivalents paid/payable

In HK$ million	The Groups 2011				
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses[1]	Retirement scheme contributions	Total
Executive directors					
Li Tzar Kai, Richard[2]	–	–	–	–	–
Alexander Anthony Arena[3]	–	1.67[5]	7.50	0.13	9.30
Hui Hon Hing, Susanna[4]	–	0.46[5]	5.50	0.04	6.00
Non-executive directors					
Peter Anthony Allen[6]	–	–	–	–	–
Chung Cho Yee, Mico[6]	0.02	–	–	–	0.02
Lu Yimin[6]	0.02[7]	–	–	–	0.02
Li Fushen[6]	0.02[8]	–	–	–	0.02
Independent non-executive directors					
Sir Rogerio (Roger) Hyndman Lobo[9]	0.03[10]	–	–	–	0.03
Professor Chang Hsin Kang[9]	0.02	–	–	–	0.02
The Hon Raymond George Hardenbergh Seitz[9]	0.03[11]	–	–	–	0.03
Sunil Varma[9]	0.03[12]	–	–	–	0.03
	0.17	2.13	13.00	0.17	15.47

Notes:

1 Bonuses in respect of 2011 were paid in 2011.
2 Appointed and designated as an executive director and the Executive Chairman of the Company and the Trustee-Manager with effect from November 11, 2011.
3 Appointed as a director of the Company and the Trustee-Manager with effect from June 14, 2011 and June 16, 2011 respectively. Mr. Alexander Anthony Arena was designated as an executive director and the Group Managing Director of the Company and the Trustee-Manager with effect from November 11, 2011.
4 Appointed as a director of the Company and the Trustee-Manager with effect from June 14, 2011 and June 16, 2011 respectively. Ms. Hui Hon Hing, Susanna was designated as an executive director of the Company and the Trustee-Manager with effect from November 11, 2011.
5 Excludes remuneration for duties performed for related companies.
6 Appointed and designated as a non-executive director of the Company and the Trustee-Manager with effect from November 11, 2011.
7 Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited.
8 Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited.
9 Appointed and designated as an independent non-executive director of the Company and the Trustee-Manager with effect from November 11, 2011.
10 Includes HK$9,493 fee as Chairman of Nomination Committee.
11 Includes HK$9,493 fee as Chairman of Remuneration Committee.
12 Includes HK$9,493 fee as Chairman of Audit Committee.

As the directors of the Company and the Trustee-Manager joined the Groups in 2011, no remuneration was paid or is payable to any director during the year ended December 31, 2010. Certain directors received remuneration from the Groups' fellow subsidiaries in respect of their services to PCCW and its subsidiaries for the year ended December 31, 2010. The amounts paid by the fellow subsidiaries have not been allocated between their services to the Groups and the PCCW Group during the year ended December 31, 2010, as there is no arrangement to recharge the Groups such expenses and it is not meaningful to perform a retrospective allocation of the services rendered by the directors to the various group companies within the PCCW Group.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

(b) Individuals with highest emoluments

(i) Of the five individuals with the highest emoluments, two (2010: zero) are directors of the Company and the Trustee-Manager whose emoluments are disclosed in note 11(a). The emoluments in respect of the three (2010: five) non-director individuals for the year ended December 31, 2011 were as follows:

In HK$ million	The Groups 2010	**2011**
Salaries, allowances and benefits in kind	14.21	**10.47**
Bonuses	9.24	**6.39**
Retirement scheme contributions	1.14	**1.05**
	24.59	**17.91**

(ii) The emoluments of the three (2010: five) non-director individuals for the year ended December 31, 2011 are within the following emolument ranges:

	The Groups Number of individuals 2010	**2011**
HK$4,000,001 – HK$4,500,000	1	**–**
HK$4,500,001 – HK$5,000,000	1	**–**
HK$5,000,001 – HK$5,500,000	3	**1**
HK$5,500,001 – HK$6,000,000	–	**1**
HK$6,500,001 – HK$7,000,000	–	**1**
	5	**3**

12 INCOME TAX

(a) Income tax in the consolidated income statement represents:

In HK$ million	The Groups 2010	**2011**
Hong Kong profits tax		
– provision for current year	3	**390**
Overseas tax		
– provision for current year	33	**44**
Movement of deferred income tax *(note 29(a))*	342	**(90)**
	378	**344**

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits during the year.

Overseas tax has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

12 INCOME TAX *(CONTINUED)*

(b) Reconciliation between income tax expense and accounting profit at applicable tax rate:

In HK$ million	The Groups 2010	**2011**
Profit before income tax	1,350	**1,615**
Notional tax on profit before income tax, calculated at applicable tax rate	223	**266**
Income not subject to tax	(2)	**(7)**
Expenses not deductible for tax purposes	8	**9**
Tax losses not recognized	104	**66**
Utilization of previously unrecognized tax losses	–	**(37)**
Loss not deductible for jointly controlled companies/an associate	12	**3**
Current tax provision for overseas operations	33	**44**
Income tax expense	378	**344**

13 FINAL DISTRIBUTION/DIVIDEND

In HK$ million	2010	**2011**
Final distribution/dividend proposed after the balance sheet date of 3.36 HK cents per Share Stapled Unit/ordinary share of the Company	–	**216**

The final distribution/dividend proposed after the balance sheet date for 2011 has not been recognized as a liability as at the balance sheet date.

14 EARNINGS PER SHARE STAPLED UNIT/SHARE OF THE COMPANY

The calculations of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the following data:

	2010	**2011**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	925	**1,221**
Number of Share Stapled Units/shares of the Company		
Weighted average number of Share Stapled Units/ordinary shares for the purpose of basic earnings per Share Stapled Unit/share of the Company	4,363,376,792	**4,549,022,496**
Weighted average number of Share Stapled Units/ordinary shares for the purpose of diluted earnings per Share Stapled Unit/share of the Company	4,363,376,792	**4,549,022,496**

The calculation of earnings per Share Stapled Unit/share of the Company for the year ended December 31, 2010 is based on the consolidated profit attributable to holders of Share Stapled Units/shares of the Company of HK$925 million and 4,363,376,792 Share Stapled Units/shares of the Company in issue as if the Share Stapled Units/shares of the Company have been issued throughout the year.

15 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Groups 2010					
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,111	19,342	17,708	10,502	752	49,415
Additions	–	493	426	174	520	1,613
Transfers	–	574	105	114	(952)	(159)
Disposals	(34)	(478)	(386)	(97)	–	(995)
Exchange differences	–	134	95	5	–	234
End of year	1,077	20,065	17,948	10,698	320	50,108
Accumulated depreciation and impairment						
Beginning of year	495	15,628	10,492	7,732	–	34,347
Charge for the year	20	1,014	860	448	–	2,342
Transfers	–	(51)	–	–	–	(51)
Disposals	(4)	(478)	(380)	(90)	–	(952)
Exchange differences	–	31	63	6	–	100
End of year	511	16,144	11,035	8,096	–	35,786
Net book value						
End of year	566	3,921	6,913	2,602	320	14,322
Beginning of year	616	3,714	7,216	2,770	752	15,068

15 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	The Groups 2011					
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,077	20,065	17,948	10,698	320	50,108
Additions	–	274	339	207	780	1,600
Acquisition of assets from the JV	–	–	629	–	–	629
Transfers	–	31	90	102	(460)	(237)
Disposals	–	(1,346)	(62)	(201)	–	(1,609)
Exchange differences	–	–	(20)	(8)	–	(28)
End of year	1,077	19,024	18,924	10,798	640	50,463
Accumulated depreciation and impairment						
Beginning of year	511	16,144	11,035	8,096	–	35,786
Charge for the year	20	962	824	446	–	2,252
Transfers	–	(208)	–	–	–	(208)
Disposals	–	(1,342)	(53)	(198)	–	(1,593)
Exchange differences	–	–	(14)	(13)	–	(27)
End of year	531	15,556	11,792	8,331	–	36,210
Net book value						
End of year	546	3,468	7,132	2,467	640	14,253
Beginning of year	566	3,921	6,913	2,602	320	14,322

Certain property, plant and equipment with aggregate carrying values of approximately HK$23 million as at December 31, 2011 (2010: HK$23 million) were pledged as security for bank borrowings of the Groups. Please refer to note 36 for details of the Groups' bank loan facilities.

The carrying amount of buildings of the Groups are analysed as follows:

In HK$ million	The Groups 2010	**2011**
Held in Hong Kong		
On long-term lease (over 50 years)	40	**39**
On medium-term lease (10–50 years)	526	**507**
	566	**546**

16 INTERESTS IN LEASEHOLD LAND

In HK$ million	The Groups 2010	**2011**
Cost		
Beginning of year	570	**536**
Transfer to a fellow subsidiary *(note 5(c)(i))*	(34)	**–**
End of year	536	**536**
Accumulated amortization		
Beginning of year	194	**207**
Charge for the year	13	**13**
End of year	207	**220**
Net book value		
End of year	329	**316**
Beginning of year	376	**329**

The carrying amount of interests in leasehold land of the Groups are analysed as follows:

In HK$ million	The Groups 2010	**2011**
Held in Hong Kong		
On long-term lease (over 50 years)	33	**31**
On medium-term lease (10–50 years)	296	**285**
	329	**316**

17 GOODWILL

In HK$ million	The Groups 2010	**2011**
Cost		
Beginning of year	35,877	**35,892**
Additions upon finalization of contingent consideration	12	**–**
Exchange differences	3	**1**
End of year	35,892	**35,893**

Goodwill is allocated to the Groups' CGUs identified as follows:

In HK$ million	The Groups 2010	**2011**
TSS		
– Local telephony and data services	30,830	**30,830**
– Global	997	**997**
– Others	506	**507**
Mobile	3,356	**3,356**
Other businesses	203	**203**
Total	35,892	**35,893**

For the purpose of impairment reviews, the recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	The Groups 2010			**2011**		
	Gross margin	Terminal growth rate	Discount rate	**Gross margin**	**Terminal growth rate**	**Discount rate**
TSS						
– Local telephony and data services	76%	1%	9%	**72%**	**1%**	**9%**
– Global	19%	3%	9%	**22%**	**3%**	**11%**
Mobile	71%	1%	13%	**60%**	**2%**	**15%**

These assumptions have been used for the analysis of each CGU.

There was no evidence of impairment arising from review on goodwill as at October 31, 2011.

Management determined budgeted gross margin based on past performance and its expectations for market development. The weighted average terminal growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

18 INTANGIBLE ASSETS

In HK$ million	The Groups 2010					
	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Others	Total
Cost						
Beginning of year	459	850	972	5,511	12	7,804
Additions	–	545	916	–	–	1,461
Write-off	–	–	(457)	–	–	(457)
Exchange differences	–	–	2	–	–	2
End of year	459	1,395	1,433	5,511	12	8,810
Accumulated amortization						
Beginning of year	27	120	399	1,203	10	1,759
Charge for the year *(Note (a))*	23	128	780	1,031	1	1,963
Write-off	–	–	(457)	–	–	(457)
End of year	50	248	722	2,234	11	3,265
Net book value						
End of year	409	1,147	711	3,277	1	5,545
Beginning of year	432	730	573	4,308	2	6,045

In HK$ million	The Groups **2011**					
	Trademarks	**Carrier licences**	**Customer acquisition costs**	**Customer base**	**Others**	**Total**
Cost						
Beginning of year	**459**	**1,395**	**1,433**	**5,511**	**12**	**8,810**
Additions	**–**	**38**	**1,259**	**–**	**–**	**1,297**
Acquisition of assets from the JV	**–**	**–**	**15**	**–**	**–**	**15**
Write-off	**–**	**–**	**(733)**	**(471)**	**–**	**(1,204)**
End of year	**459**	**1,433**	**1,974**	**5,040**	**12**	**8,918**
Accumulated amortization						
Beginning of year	**50**	**248**	**722**	**2,234**	**11**	**3,265**
Charge for the period *(Note (a))*	**23**	**153**	**980**	**828**	**1**	**1,985**
Write-off	**–**	**–**	**(733)**	**(471)**	**–**	**(1,204)**
End of year	**73**	**401**	**969**	**2,591**	**12**	**4,046**
Net book value						
End of year	**386**	**1,032**	**1,005**	**2,449**	**–**	**4,872**
Beginning of year	**409**	**1,147**	**711**	**3,277**	**1**	**5,545**

(a) The amortization charge for the year is included in “General and administrative expenses” in the consolidated income statement.

19 INTEREST IN AN ASSOCIATE

In HK$ million	The Groups 2010	2011
Share of net assets of an associate	–	**24**
Amount due from an associate	–	**71**
	–	**95**
Investments at cost, unlisted shares	–	**41**

The amount due from an associate comprise of a loan of HK$43 million (2010: nil) which is unsecured, bears interest at 5% per annum, and repayable within two years; and a loan of HK$28 million (2010: nil) which is unsecured, bears interest at 6.5% per annum, and repayable within one year.

As at December 31, 2011, particulars of the principal associate of the Groups are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Groups Directly	Indirectly
東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited#)	The PRC	Provision of support service for mobile service subscription, sales of mobile phones and accessories	RMB40,000,000	–	35%

\# Unofficial company name

Summarized unaudited financial information of the associates of the Groups is as follows:

In HK$ million	2010	2011
Total assets	–	**176**
Total liabilities	–	**(174)**
Turnover	–	**82**
Loss after income tax	–	**(47)**

During the year ended December 31, 2011, the Groups did not have any unrecognized share of loss of an associate (2010: nil). As at December 31, 2011, the accumulated share of loss of the associate unrecognized by the Groups was nil (2010: nil).

20 INTERESTS IN JOINTLY CONTROLLED COMPANIES

In HK$ million	The Groups 2010	2011
Share of net assets of jointly controlled companies	214	**276**
Loan due from a jointly controlled company *(Note (a))*	260	**301**
	474	**577**

(a) The loan to a jointly controlled company bears interests at HIBOR plus 3% per annum for the year (2010: HIBOR plus 3% per annum). The loan is unsecured and has no fixed terms of repayment.

20 INTERESTS IN JOINTLY CONTROLLED COMPANIES *(CONTINUED)*

(b) Particulars of the jointly controlled companies of the Groups are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Groups 2010 Directly	2010 Indirectly	**2011 Directly**	**2011 Indirectly**
Genius Brand Limited	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	50%	**–**	**50%**
China Netcom Broadband Corporation Limited	The PRC	Internet access services business, information services business and resale of broadband resources, etc.	RMB644,518,697	–	50%	**–**	**50%**
Reach Ltd.	Bermuda	Provision of international telecommunication services	US$5,890,000,000	–	–	**–**	**50%**

Summarized unaudited financial information of the Groups' interests in jointly controlled companies is as follows:

In HK$ million	The Groups 2010	**2011**
Non-current assets	673	**798**
Current assets	196	**229**
Total assets	869	**1,027**
Non-current liabilities	(278)	**(346)**
Current liabilities	(190)	**(298)**
Net assets	401	**383**
Non-controlling interests	(187)	**(107)**
Equity attributable to holders of Share Stapled Units/shares of the Company	214	**276**

In HK$ million	The Groups 2010	**2011**
Turnover	229	**289**
Expenses	(288)	**(272)**
Loss before income tax	(59)	**17**
Income tax	(3)	**(6)**
Loss after income tax	(62)	**11**
Non-controlling interests	(11)	**(13)**
Loss for the year attributable to holders of Share Stapled Units/shares of the Company	(73)	**(2)**

21 AVAILABLE-FOR-SALE FINANCIAL ASSET

In HK$ million	The Groups 2010	**2011**
Beginning of year	–	**48**
Transfer from a fellow subsidiary *(Note 5(c)(ii))*	54	**–**
Net (loss)/gain transfer to equity	(6)	**24**
End of year	48	**72**
Market value of listed equity securities – overseas	48	**72**

No available-for-sale financial asset was pledged as security for bank borrowings of the Groups as at December 31, 2010 and 2011.

22 INVESTMENT IN SUBSIDIARIES

In HK$ million	The Company 2010	**2011**
Unlisted shares, at cost	–	**19,837**

During the year, the Company entered into transactions with certain subsidiaries in the ordinary course of business. Details of the amounts due from subsidiaries are as follows:

(a) Amount due from a subsidiary

In HK$ million	The Company 2010	**2011**
Amount due from a subsidiary	–	**8,339**

Balance due from a subsidiary is unsecured, non-interest-bearing, and no fixed terms of repayment except that the loan due from a subsidiary of HK$7,800 million (2010: nil) bears interest at HIBOR plus 0.3% per annum and repayable within one year.

22 INVESTMENT IN SUBSIDIARIES *(CONTINUED)*

As at December 31, 2011, particulars of the principal subsidiaries of the Company are as follows:

Company	Country/place of incorporation/ establishment and operation	Date of incorporation/ establishment	Type of legal entity	Nominal value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Groups 2010 Directly	Interest held by the Groups 2010 Indirectly	**2011 Directly**	**2011 Indirectly**	Principal activities
Hong Kong Telecommunications HKT (CI) Limited	Cayman Islands	18/01/2008	Limited liability company	US$2.00	–	100%	**–**	**100%**	Investment holding
Hong Kong Telecommunications (HKT) Limited[4]	Hong Kong	21/01/2008	Limited liability company	HK$2,488,200,001	–	100%	**–**	**100%**	Provision of telecommunications services
HKT Group Holdings Limited[4]	Cayman Islands	18/01/2008	Limited liability company	US$636,000,002.00	–	100%	**–**	**100%**	Investment holding
HKT Services Limited[4]	Hong Kong	23/01/2008	Limited liability company	HK$1.00	–	100%	**–**	**100%**	Provision of management services to group companies
PCCW Global, Inc.	U.S. (Delaware)	13/05/2002	Limited liability company	US$18.01	–	100%	**–**	**100%**	Supply of broadband internet access solutions and web services
PCCW Global Limited[6]	Hong Kong/Dubai Technology and Media Free Zone	09/03/2001	Limited liability company	HK$2.00	–	100%	**–**	**100%**	Provision of network-based telecommunications services
PCCW Global (HK) Limited[6]	Hong Kong	06/07/1993	Limited liability company	HK$10.00	–	100%	**–**	**100%**	Provision of satellite-based and network-based telecommunications services
PCCW Global (UK) Limited[8]	United Kingdom	05/06/2001	Limited liability company	£1.00	–	100%	**–**	**100%**	Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies
PCCW Global (Singapore) Pte. Ltd.[7]	Singapore	29/06/2001	Limited liability company	S$172,124,441.71	–	100%	**–**	**100%**	Telecommunication solutions related services
HKT Global (Singapore) Pte. Ltd.[7]	Singapore	11/06/2008	Limited liability company	S$60,956,485.64	–	100%	**–**	**100%**	Provision of telecommunications solutions related services

22 INVESTMENT IN SUBSIDIARIES *(CONTINUED)*

Company	Country/place of incorporation/ establishment and operation	Date of incorporation/ establishment	Type of legal entity	Nominal value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Groups 2010 Directly	Interest held by the Groups 2010 Indirectly	**2011 Directly**	**2011 Indirectly**	Principal activities
PCCW (Macau), Limitada[6]	Macau	02/03/2002	Limited liability company	MOP2,000,000.00	–	75%	**–**	**75%**	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services
PCCW Mobile HK Limited[4]	Hong Kong	24/11/1994	Limited liability company	HK$100.00 ordinary shares HK$1,254,000,000.00 non-voting deferred shares	–	100%	**–**	**100%**	Provision of mobile services to its customers, which is procured from Hong Kong Telecommunications (HKT) Limited, and the sale of mobile phones and accessories
PCCW Customer Management Technology and Services (Guangzhou) Limited[1, 3, 9]	The PRC	15/06/2001	Limited liability company	HK$53,803,000.00	–	100%	**–**	**100%**	Customer service and consultancy
PCCW Teleservices Operations (Hong Kong) Limited[6]	Hong Kong	20/08/2001	Limited liability company	HK$2.00	–	100%	**–**	**100%**	Provision of customer relationship management and customer contact management solutions and services
PCCW Teleservices (Hong Kong) Limited[6]	Hong Kong	18/04/1991	Limited liability company	HK$12.00	–	100%	**–**	**100%**	Provision of customer relationship management and customer contact management solutions and services
PCCW Teleservices (US), Inc.[10] (formerly known as Interactive Teleservices Corporation)	Nebraska, U.S.	29/12/1994	Limited liability company	US$1,169.00	–	85%	**–**	**85%**	Telemarketing and direct marketing services
Unihub China Information Technology Company Limited[2, 5]	The PRC	17/06/2003	Limited liability company	RMB200,000,000.00	–	38.2%	**–**	**38.2%**	Selling of hardware and software and information system consulting services

22 INVESTMENT IN SUBSIDIARIES *(CONTINUED)*

Certain subsidiaries which do not materially affect the results or financial position of the Groups are not included.

Notes:

1. Represents a wholly foreign owned enterprise.
2. Represents a sino-foreign equity joint venture.
3. Unofficial company name.
4. The statutory financial information of this subsidiary for the year ended December 31, 2010 was prepared in accordance with HKFRSs and audited by PricewaterhouseCoopers.
5. The statutory financial information of this subsidiary for the year ended December 31, 2010 was prepared in accordance with Accounting Standards for Business Enterprises and the 'Accounting System for Business Enterprises' and audited by PricewaterhouseCoopers.
6. The statutory financial information of this subsidiary for the year ended December 31, 2010 was prepared in accordance with HKFRSs and audited by KPMG.
7. The statutory financial information of this subsidiary for the year ended December 31, 2010 was prepared in accordance with Singapore Financial Reporting Standards (FRS) and audited by KPMG.
8. The statutory financial information of this subsidiary for the year ended December 31, 2010 was prepared in accordance with GAAP in the United Kingdom and audited by KPMG.
9. The statutory financial information of this subsidiary for the year ended December 31, 2010 was prepared in accordance with Accounting Standards for Business Enterprises and the 'Accounting System for Business Enterprises' and audited by Shu Lun Pan Yangcheng Certified Public Accountants Co. Ltd.
10. The statutory financial information of this subsidiary for the year ended December 31, 2010 was prepared in accordance with GAAP in the United States and audited by Weaver and Tidwell LLP.

23 CURRENT ASSETS AND LIABILITIES

(a) Inventories

In HK$ million	The Groups	
	2010	**2011**
Work-in-progress	595	**521**
Finished goods	147	**412**
Consumable inventories	90	**143**
	832	**1,076**

23 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

(b) Trade receivables, net

In HK$ million	The Groups 2010	**2011**
Trade receivables *(note (i))*	2,240	**2,651**
Less: Impairment loss on doubtful debts *(note (ii))*	(136)	**(110)**
Trade receivables, net	2,104	**2,541**

(i) Aging analysis of trade receivables

In HK$ million	The Groups 2010	**2011**
0–30 days	1,219	**1,426**
31–60 days	226	**356**
61–90 days	152	**145**
91–120 days	69	**102**
Over 120 days	574	**622**
	2,240	**2,651**

(ii) Impairment loss on doubtful debts

The movements in the provision for doubtful debts during the year, including both specific and collective loss components, are as follows:

In HK$ million	The Groups 2010	**2011**
Beginning of year	199	**136**
Impairment loss recognized	97	**125**
Uncollectible amounts written off	(160)	**(151)**
End of year	136	**110**

As at December 31, 2011, the Groups' trade receivables of HK$110 million (2010: HK$136 million) was individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK$79 million (2010: HK$97 million) was recognized. The Groups do not hold any collateral over these balances.

23 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

(b) Trade receivables, net *(continued)*

(iii) Trade receivables that are not impaired

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

In HK$ million	The Groups 2010	**2011**
Neither past due nor impaired	1,029	**1,323**
0–30 days past due	344	**363**
31–60 days past due	134	**181**
61–90 days past due	114	**96**
Over 90 days past due	483	**578**
Past due but not impaired	1,075	**1,218**
	2,104	**2,541**

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to customers that have a good track record with the Groups or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, 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.

Certain trade receivables with an aggregate carrying value of approximately HK$37 million were pledged as security for certain bank borrowings of the Groups as at December 31, 2011 (2010: HK$44 million). Please refer to note 36 for details of the Groups' bank loan facilities.

(c) Short-term borrowings

In HK$ million	The Groups 2010	**2011**
US$1,000 million 7.75% guaranteed notes due 2011	7,772	–
Bank borrowings	28	**31**
	7,800	**31**
Secured	28	**31**
Unsecured	7,772	–

23 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

(c) Short-term borrowings *(continued)*

US$1,000 million 7.75% guaranteed notes due 2011 (the "Notes due 2011")

In November 2001, PCCW-HKT Capital Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$1,000 million 7.75% guaranteed notes due November 2011 which were listed on the Luxembourg Stock Exchange (interest rate subsequently adjusted to 8% pursuant to an interest step-up provision). In November 2001, the proceeds received from the Notes due 2011 were lent to PCCW-HKT Telephone Limited ("HKTC") on the same term, and then to Hong Kong Telecommunications (HKT) Limited in November 2008. The Notes due 2011 were unconditionally and irrevocably guaranteed by HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH and ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH. The notes were fully redeemed on November 15, 2011 and were delisted from the Luxembourg Stock Exchange.

(d) Trade payables

The aging analysis of trade payables is set out below:

In HK$ million	The Groups 2010	**2011**
0–30 days	836	**657**
31–60 days	172	**97**
61–90 days	29	**53**
91–120 days	14	**35**
Over 120 days	517	**690**
	1,568	**1,532**

24 LONG-TERM BORROWINGS

In HK$ million	The Groups 2010	**2011**
Repayable within a period		
– over one year, but not exceeding two years	–	**8,123**
– over two years, but not exceeding five years	18,334	**15,347**
– over five years	8,695	**–**
	27,029	**23,470**
Representing:		
US$500 million 6% guaranteed notes due 2013 *(note (a))*	3,879	**3,881**
US$500 million 5.25% guaranteed notes due 2015 *(note (b))*	3,866	**3,867**
US$500 million 4.25% guaranteed notes due 2016 *(note (c))*	3,773	**3,979**
Bank borrowings	15,511	**11,743**
	27,029	**23,470**
Secured	–	**2**
Unsecured	27,029	**23,468**

24 LONG-TERM BORROWINGS *(CONTINUED)*

(a) US$500 million 6% guaranteed notes due 2013 (the "Notes due 2013")

In July 2003, PCCW-HKT Capital No.2 Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$500 million 6% guaranteed notes due 2013 which are listed on the Luxembourg Stock Exchange. In July 2003, the proceeds received from the Notes due 2013 were lent to HKTC on the same term, and then to Hong Kong Telecommunications (HKT) Limited in November 2008. The Notes due 2013 are irrevocably and unconditionally guaranteed by HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH.

(b) US$500 million 5.25% guaranteed notes due 2015 (the "Notes due 2015")

In July 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$500 million 5.25% guaranteed notes due 2015 which are listed on the Singapore Exchange Securities Trading Limited. In July 2005, the proceeds received from the Notes due 2015 were lent to HKTC on the same term, and then to Hong Kong Telecommunications (HKT) Limited in November 2008. The Notes due 2015 are irrevocably and unconditionally guaranteed by HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, Hong Kong Telecommunications (HKT) Limited and HKTGH.

(c) US$500 million 4.25% guaranteed notes due 2016 (the "Notes due 2016")

In August 2010, PCCW-HKT Capital No.4 Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$500 million 4.25% guaranteed notes due 2016 which are listed on the Singapore Exchange Securities Trading Limited. In August 2010, the proceeds received from the Notes due 2016 were lent to Hong Kong Telecommunications (HKT) Limited on the same term. The Notes due 2016 are irrevocably and unconditionally guaranteed by Hong Kong Telecommunications (HKT) Limited and HKTGH and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of Hong Kong Telecommunications (HKT) Limited and HKTGH.

Please refer to note 36 for details of the Groups' bank loan facilities.

25 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	The Groups 2010	**2011**
Non-current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges *(note (a))*	152	**114**
Fixed-to-floating cross currency swap contracts – cash flow hedges *(note (b))*	–	**31**
Fixed-to-floating cross currency swap contracts – fair value hedges *(note (b))*	–	**130**
	152	**275**
Current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges *(note (a))*	17	**–**
Non-current liabilities		
Fixed-to-floating cross currency swap contracts – cash flow hedges *(note (b))*	(34)	**–**
Fixed-to-floating cross currency swap contracts – fair value hedges *(note (b))*	(68)	**–**
	(102)	**–**

As at December 31, 2011, the Groups had outstanding cross currency swap contracts with notional contract amounts of US$1,500 million (approximately HK$11,664 million) (2010: US$2,500 million (approximately HK$19,454 million)), at various rates, to manage the Groups' exposure to foreign currency fluctuations and interest rate risk.

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(a) All of the fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2011 with notional contract amounts of US$1,000 million (approximately HK$7,776 million) (2010: US$2,000 million (approximately HK$15,563 million)) was designated as cash flow hedges of the foreign exchange rate risk in the Groups foreign currency denominated borrowings. Maturity of these swaps matches with the maturity of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7790 to 7.8014 as at December 31, 2011 for the notional amounts (see note 33(c)(i)). Gains and losses recognized in the hedging reserve under equity on these cross currency swap contracts will be continuously released to the consolidated income statement until the repayment of the borrowings.

(b) The Groups have entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2011 with notional contract amounts of US$500 million (approximately HK$3,888 million) (2010: US$500 million (approximately HK$3,891 million)). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and has fixed the USD/HKD exchange rate at 7.7708 to 7.7711 for the notional amounts (see note 33(c)(i)). The swaps also pre-determined the interest rates at HIBOR plus 2.24% (see note 33(c)(ii)).

These swap contracts were designated as (i) cash flow hedges of the foreign exchange rate risk in the Groups' foreign currency denominated borrowings and (ii) fair value hedges of the interest rate risk in the Groups' borrowings at fixed interest rates.

25 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) *(continued)*

Gains and losses recognized in the hedging reserve under equity on these swap contracts designated as cash flow hedges will be continuously released to the consolidated income statement until the repayment of the borrowings.

Those swap contracts designated as fair value hedges will offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The swap contracts were reflected at fair value in the consolidated balance sheet and the related portion of fixed-rate debt being hedged was reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate debt being hedged, are recognized as adjustments in "Finance costs, net" in the consolidated income statement. The net effect recognized in the "Finance costs, net" represents the ineffective portion of the hedging relationship, amounted to approximately HK$3 million for the year ended December 31, 2011 (2010: HK$8 million) (see note 10).

26 EMPLOYEE BENEFITS

(a) Employee retirement benefits – Defined contribution retirement schemes

The Groups operate defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Groups.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 (to be revised upward to HK$25,000 with effect from June 1, 2012). Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

(b) Equity compensation benefits

(i) 1994 and 2004 PCCW Share option schemes

PCCW has a share option scheme (the "1994 PCCW Scheme") which was adopted in September 1994 to be valid for a period of ten years commencing on September 20, 1994. The 1994 PCCW Scheme was amended in May 2002 such that the board of directors of PCCW (the "PCCW Board") may, at its discretion, invite employees of PCCW and its subsidiaries, including directors of PCCW, and other eligible persons, to take up options to subscribe for shares of PCCW. The vesting period and exercise period of the options are determined by the PCCW Board but in any case no options can be exercised later than 10 years from the date of grant. Each option gives the holder the right to subscribe for one share.

26 EMPLOYEE BENEFITS *(CONTINUED)*

(b) Equity compensation benefits *(continued)*

(i) 1994 and 2004 PCCW Share option schemes *(continued)*

At PCCW's annual general meeting held on May 19, 2004, the shareholders of PCCW approved the termination of the 1994 PCCW Scheme and the adoption of a new share option scheme (the "2004 PCCW Scheme"). Since May 19, 2004, the PCCW Board may, at its discretion, grant share options to any eligible person to subscribe for shares in PCCW subject to the terms and conditions stipulated in the 2004 PCCW Scheme. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 PCCW Scheme and any other share option schemes including the 1994 PCCW Scheme must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares which may be granted under the 2004 PCCW Scheme must not exceed 10% of PCCW's issued share capital as at May 19, 2004 (or some other date if renewal of this limit is approved by shareholders of PCCW). The exercise price of the options under the 2004 PCCW Scheme shall be determined by the PCCW Board at its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange, and (iii) the nominal value of a share on the date of grant. The vesting period and exercise period of the options are determined by the PCCW Board, but no option can be exercised later than the day last preceding the tenth anniversary of the date of grant in respect of such option. In general, the subscription price is determined by reference to the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange. The basis for determination of the subscription price and the total number of shares that can be granted to eligible persons are precisely specified in the rules of the 2004 PCCW Scheme. The 2004 PCCW Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The HKT Trust and the Company have no legal or constructive obligation to repurchase or settle the options in cash.

(1) Movements in the number of share options outstanding and their related weighted average exercise prices

In HK$	The Groups			
	2010		**2011**	
	Weighted average exercise price	Number of options	**Weighted average exercise price**	**Number of options**
Beginning of year	9.75	36,959,465	**5.75**	**31,983,975**
Net addition due to transfer of employees from fellow subsidiaries *(note (3))*	7.52	2,492,380	**4.31**	**2,043,813**
Cancelled/lapsed *(note (4))*	26.13	(7,467,870)	**7.34**	**(11,413,453)**
End of year *(note (2))*	5.75	31,983,975	**4.82**	**22,614,335**
Exercisable at end of year		31,983,975		**22,614,335**

26 EMPLOYEE BENEFITS *(CONTINUED)*

(b) Equity compensation benefits *(continued)*

(i) 1994 and 2004 PCCW Share option schemes *(continued)*

(2) Terms of unexpired and unexercised share options at the balance sheet date

Date of grant	Vesting period	Exercise period	Exercise price HK$	The Groups Number of options 2010	**2011**
January 22, 2001 to February 20, 2001	January 22, 2001 to January 22, 2005	January 22, 2001 to January 22, 2011	16.8400	2,659,453	–
April 17, 2001 to May 16, 2001	May 26, 2001 to May 26, 2005	May 26, 2001 to April 17, 2011	10.3000	71,440	–
July 16, 2001 to September 15, 2001	July 16, 2002 to July 16, 2004	July 16, 2002 to July 16, 2011	9.1600	108,080	–
August 1, 2002	August 1, 2003 to August 1, 2005	August 1, 2003 to July 31, 2012	8.0600	200,000	**200,000**
November 13, 2002	November 13, 2003 to November 13, 2005	November 13, 2003 to November 12, 2012	6.1500	5,480,000	**5,440,000**
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	23,458,002	**16,967,335**
September 16, 2003	September 16, 2004 to September 16, 2006	September 16, 2004 to September 14, 2013	4.9000	7,000	**7,000**
				31,983,975	**22,614,335**

The range of exercise prices and the weighted average remaining contractual life of the share options outstanding are as follows:

	The Groups			
	2010		**2011**	
Range of exercise prices	Weighted average remaining contractual life (years)	Number of options	**Weighted average remaining contractual life (years)**	**Number of options**
HK$4.01 to 5.04	2.56	23,465,002	**1.56**	**16,974,335**
5.05 to 7.54	1.87	5,480,000	**0.87**	**5,440,000**
7.55 to 11.29	1.04	379,520	**0.58**	**200,000**
16.80 to 25.04	0.06	2,659,453	–	–
		31,983,975		**22,614,335**

26 EMPLOYEE BENEFITS *(CONTINUED)*

(b) Equity compensation benefits *(continued)*

(i) 1994 and 2004 PCCW Share option schemes *(continued)*

(3) Details of share option transferred to/(from) the Groups with employees transferred during the year:

Date of grant	Vesting period	Exercise period	Exercise price HK$	The Groups Number of options 2010	**2011**
February 8, 2000 to March 8, 2000	February 8, 2001 to February 8, 2003	February 8, 2001 to February 8, 2010	75.2400	(86,700)	–
August 26, 2000 to September 24, 2000	May 26, 2001 to May 26, 2005	May 26, 2001 to August 26, 2010	60.1200	508,000	–
October 27, 2000 to November 25, 2000	March 15, 2001 to March 15, 2005	March 15, 2001 to October 27, 2010	24.3600	(141,840)	–
January 22, 2001 to February 20, 2001	January 22, 2001 to January 22, 2005	January 22, 2001 to January 22, 2011	16.8400	(814,360)	–
February 8, 2001	February 8, 2002 to February 8, 2004	February 8, 2002 to February 8, 2011	18.7600	(86,700)	–
April 17, 2001 to May 16, 2001	May 26, 2001 to May 26, 2005	May 26, 2001 to April 17, 2011	10.3000	1,760	**(760)**
July 16, 2001 to September 15, 2001	July 16, 2002 to July 16, 2004	July 16, 2002 to July 16, 2011	9.1600	57,920	**(1,760)**
April 11, 2002	April 11, 2003 to April 11, 2007	April 11, 2003 to April 11, 2012	7.9150	(86,700)	–
November 13, 2002	November 13, 2003 to November 13, 2005	November 13, 2003 to November 12, 2012	6.1500	–	**(40,000)**
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	3,141,000	**2,086,333**
				2,492,380	**2,043,813**

(4) Details of share options cancelled or lapsed during the year:

Exercise period	Exercise price HK$	The Groups Number of options 2010	**2011**
May 26, 2001 to August 26, 2010	60.1200	751,400	–
March 15, 2001 to October 27, 2010	24.3600	5,944,910	–
January 22, 2001 to January 22, 2011	16.8400	77,520	**2,659,453**
May 26, 2001 to April 17, 2011	10.3000	7,880	**70,680**
July 16, 2002 to July 16, 2011	9.1600	11,160	**106,320**
November 13, 2003 to November 12, 2012	6.1500	380,000	–
July 25, 2004 to July 23, 2013	4.3500	295,000	**8,577,000**
		7,467,870	**11,413,453**

26 EMPLOYEE BENEFITS *(CONTINUED)*

(b) Equity compensation benefits *(continued)*

(i) 1994 and 2004 PCCW Share option schemes *(continued)*

(5) There were no share options granted during the year.

(6) There were no share options exercised during the year.

(ii) 2011–2021 Share Stapled Units Option Scheme

On November 7, 2011 (the "Adoption Date"), the HKT Trust and the Company conditionally adopted a Share Stapled Units option scheme ("2011–2021 Option Scheme") which has become effective upon listing, to enable the HKT Trust and the Company, acting jointly by mutual agreement between them, to grant options to (a) any full-time or part-time employees of the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries ("Eligible Participants") as incentives or rewards for their contribution to the growth of the Groups and to provide the Groups with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

No Share Stapled Unit option has been granted under the 2011–2021 Option Scheme since the Adoption Date. Accordingly, there were no outstanding options under the 2011–2021 Option Scheme as at the date of Listing and December 31, 2011 and no options were granted to or exercised by any directors of the Company and the Trustee-Manager or the chief executive of the Company or employees of the Groups or other participants nor cancelled or lapsed during the year ended December 31, 2011.

(iii) Share Stapled Units Award Schemes

On October 11, 2011, the Company conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "Share Stapled Units Award Schemes").

The Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by the Company which became effective upon listing as a potential means to incentivise and reward the eligible participants as follows:

In the case of the HKT Share Stapled Units Purchase Scheme:

(1) any full-time or part-time employees of the Company and/or any of its subsidiaries;

(2) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries.

In the case of the HKT Share Stapled Units Subscription Scheme:

The same group of potential eligible participants as referred to above except for any directors of the Company or its subsidiaries and/or any other connected persons of the Company.

26 EMPLOYEE BENEFITS *(CONTINUED)*

(b) Equity compensation benefits *(continued)*

(iii) Share Stapled Units Award Schemes *(continued)*

The Share Stapled Units Award Schemes are administered by the board of directors of the Company ("Company Board") and an independent trustee (the "Trustee"), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants.

Awards may be made by the Company Board or any committee, sub-committee or person duly delegated, such as the remuneration committee and, in the case of Share Stapled Units that are not vested or transferred as originally intended the Trustee may hold such units and income deriving therefrom for the purpose of any eligible participants, having taken into consideration the recommendations of the Company Board.

No awards have been made or agreed to be made, under the Share Stapled Units Award Schemes during the period ended December 31, 2011.

27 EQUITY OF HKT LIMITED

	2011	
	Number of shares	**Nominal value HK$**
Authorized:		
Ordinary shares		
Beginning of year	–	–
Increase during year of HK$0.0005 each *(note a)*	**20,000,000,000**	**10,000,000**
End of year	**20,000,000,000**	**10,000,000**
Preference shares		
Beginning of year	–	–
Increase during year of HK$0.0005 each *(note a)*	**20,000,000,000**	**10,000,000**
End of year	**20,000,000,000**	**10,000,000**
Issued and fully paid:		
Ordinary shares of HK$0.0005 each		
Beginning of year	–	–
Issue of ordinary shares *(note a)*	**15,600**	**8**
Issue of ordinary shares in exchange for interest in HKTGH *(note b)*	**4,363,361,192**	**2,181,680**
Issue of ordinary shares *(note c)*	**2,053,354,000**	**1,026,677**
	6,416,730,792	**3,208,365**

27 EQUITY OF HKT LIMITED *(CONTINUED)*

	2011 Number of shares	2011 Nominal value HK$
Preference shares of HK$0.0005 each		
Beginning of year	–	–
Issue of preference shares *(note a)*	**15,600**	**8**
Issue of preference shares in exchange for interest in HKTGH *(note b)*	**4,363,361,192**	**2,181,680**
Issue of preference shares *(note c)*	**2,053,354,000**	**1,026,677**
	6,416,730,792	**3,208,365**

Movements in reserves of the Company during the year ended December 31, 2011 are as follows:

In HK$ million	The Company 2011 Share premium	Retained profits	Total
At January 1, 2011	–	–	–
Issue of ordinary and preference shares for interest in HKTGH *(note b)*	**18,618**	**–**	**18,618**
Issue of ordinary and preference shares, net of issuance expenses *(note (c))*	**8,942**	**–**	**8,942**
Total comprehensive income for the year	**–**	**3**	**3**
At December 31, 2011	**27,560**	**3**	**27,563**

(a) On June 14, 2011, one share of US$1.00 was allotted and issued for cash at par to the initial subscriber, Mapcal Limited. On June 14, 2011, the said one share was transferred to CAS No. 1.

On November 7, 2011, one share of US$1.00 was allotted and issued to CAS No. 1 by a capitalization of inter-company indebtedness owned by the Company to CAS No. 1.

On November 7, 2011, the Company passed resolutions to change the currency denomination of the issued and unissued share capital of the Company from United States Dollars to Hong Kong Dollars by (i) increasing the authorized share capital of the Company by HK$20,000,000 by the creation of 40,000,000,000 shares ("New Shares") of a nominal or par value of HK$0.0005 each (the "Increase") of which 20,000,000,000 shall be designated as ordinary shares of par value of HK$0.0005 each and 20,000,000,000 shall be designated as preference shares of par value of HK$0.0005 each, in each case with the rights, preferences, privileges and restrictions as set out in the Company's amended and restated memorandum and articles of association; (ii) the allotment and issue of 31,200 New Shares (comprising 15,600 ordinary shares and 15,600 preference shares of the Company) fully paid to CAS No. 1 (the "Issue"); (iii) the repurchase by the Company of the 2 existing issued shares of US$1.00 each ("Existing Shares") in the share capital of the Company in issue immediately prior to the Increase at a price in Hong Kong Dollars equivalent to US$1.00 per Existing Share which was paid out of the proceeds of the Issue referred to in (ii) (the "Repurchase") following which the Existing Shares were cancelled; and (iv) following the Repurchase and cancellation, the authorized but unissued share capital of the Company was diminished by the cancellation of all the 50,000 unissued shares of par value of US$1.00 each in the share capital of the Company.

27 EQUITY OF HKT LIMITED *(CONTINUED)*

(b) On completion of the Reorganization, 4,363,361,192 ordinary shares and 4,363,361,192 preference shares of the Company were allotted and issued to CAS No. 1 in exchange for the entire issued share capital of HKTGH.

(c) On completion of the global offering of Share Stapled Units, 2,053,354,000 ordinary shares and 2,053,354,000 preference shares of the Company were issued and received net proceeds of HK$8,944 million.

All new ordinary shares issued during the year rank pari passu in all respects with the existing shares.

28 RETAINED PROFITS AND OTHER RESERVES

In HK$ million	The Groups 2010						
	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging Reserve	Other reserves	Retained profits	Total
At January 1, 2010	16,667	210	(695)	235	–	1,928	18,345
Total comprehensive income/(loss) for the year	–	145	–	(27)	(6)	925	1,037
Increase in ownership interest in a subsidiary *(note 38)*	–	–	–	–	(31)	–	(31)
At December 31, 2010	16,667	355	(695)	208	(37)	2,853	19,351

28 RETAINED PROFITS AND OTHER RESERVES *(CONTINUED)*

In HK$ million	The Groups 2011						
	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging Reserve	Other reserves	Retained profits	Total
At January 1, 2011	16,667	355	(695)	208	(37)	2,853	19,351
Total comprehensive income/(loss) for the year	–	11	–	4	24	1,221	1,260
Capital contribution by the immediate holding company *(note a)*	2,005	–	–	–	–	–	2,005
Issue of ordinary and preference shares of the Company in exchange for the entire issued share capital of HKTGH *(note b)*	(1,148)	–	–	–	–	–	(1,148)
Transfer of businesses between the Groups and related parties in connection with the Reorganization *(note c)*	–	–	348	–	–	–	348
Issue of Share Stapled Units, net of issuance expenses *(note d)*	8,942	–	–	–	–	–	8,942
Distribution to equity owners	–	–	–	–	–	(8)	(8)
At December 31, 2011	26,466	366	(347)	212	(13)	4,066	30,750

(a) This represents capital contribution from CAS No. 1 to the Groups by way of capitalization of HK$2,005 million HKTGH owed to CAS No. 1.

(b) This represents the difference between the value of the 4,363,361,192 ordinary shares and 4,363,361,192 preference shares issued and the fair value of 100% interest in HKTGH.

(c) Pursuant to the Reorganization, certain businesses were transferred to the Groups and its related parties as set out in notes 2(b)(ii) and (iii). The merger reserve represents the difference between the consideration of the transfer and the net asset value of the business on the date of the transfer.

(d) On November 29, 2011, the Company issued 2,053,354,000 ordinary shares and 2,053,354,000 preference shares in connection with the global offering of Share Stapled Units and received net proceeds of HK$8,944 million.

29 DEFERRED INCOME TAX

(a) Movements in deferred income tax liabilities/(assets) during the year are as follows:

In HK$ million	The Groups 2010				
	Accelerated tax depreciation and amortization	Valuation of leasehold land and properties	Tax losses	Others	Total
Beginning of year	2,406	5	(666)	(4)	1,741
Disposal of subsidiaries	–	(5)	–	–	(5)
(Credited)/charged to the combined income statement *(note 12(a))*	(220)	–	561	1	342
End of year	2,186	–	(105)	(3)	2,078

In HK$ million	**The Groups 2011**			
	Accelerated tax depreciation and amortization	**Tax losses**	**Others**	**Total**
Beginning of year	**2,186**	**(105)**	**(3)**	**2,078**
(Credited)/charged to the consolidated income statements *(note 12(a))*	**(195)**	**105**	**–**	**(90)**
End of year	**1,991**	**–**	**(3)**	**1,988**

In HK$ million	The Groups 2010	**2011**
Deferred income tax assets recognized in the consolidated balance sheet	(3)	**(3)**
Deferred income tax liabilities recognized in the consolidated balance sheet	2,081	**1,991**
	2,078	**1,988**

(b) During the year ended December 31, 2011, deferred income tax assets of HK$105 million (2010: HK$561 million) have been reversed and utilized against current year taxable profits. The Groups have unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$8,979 million as at December 31, 2011 (2010: HK$8,136 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$40 million as at December 31, 2011 (2010: HK$54 million) will expire within 1 to 5 years. No tax losses as at December 31, 2011 will expire after 5 years (2010: HK$33 million). The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

30 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2011, the Groups had carrier licence fee liabilities repayable as follows:

In HK$ million	The Groups					
	2010			**2011**		
	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	**Present value of the minimum annual fees**	**Interest expense relating to future periods**	**Total minimum annual fees**
Repayable within a period						
– not exceeding one year	146	8	154	**190**	**9**	**199**
– over one year, but not exceeding two years	140	21	161	**149**	**22**	**171**
– over two years, but not exceeding five years	407	136	543	**429**	**144**	**573**
– over five years	377	224	601	**260**	**140**	**400**
	1,070	389	1,459	**1,028**	**315**	**1,343**
Less: Amounts repayable within one year included under current liabilities	(146)	(8)	(154)	**(190)**	**(9)**	**(199)**
	924	381	1,305	**838**	**306**	**1,144**

31 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	The Groups 2010	**2011**
Profit before income tax	1,350	**1,615**
Adjustments for:		
Interest income	(9)	**(40)**
Interest expense	1,315	**1,313**
Finance charges	247	**226**
Cash flow hedges: transferred from equity	1	**1**
Fair value losses/(gains) on derivative financial instruments on fair value hedges	88	**(198)**
Fair value adjustment of borrowings attributable to interest rate risk	(80)	**202**
Net loss/(gain) on cash flow hedging instruments transferred from equity	1	**(1)**
Depreciation of property, plant and equipment	2,342	**2,252**
Gain on disposal of property, plant and equipment, net	(14)	**(5)**
Provision for inventory obsolescence	9	**7**
Impairment loss for doubtful debts	97	**125**
Amortization of intangible assets	1,963	**1,985**
Amortization of land lease premium	13	**13**
Share of results of jointly controlled companies	73	**2**
Share of results of associates	–	**17**
Impairment of interest in a jointly controlled company	–	**16**
Net realized gain on disposal of subsidiaries	(41)	**–**
Assets and business received from a jointly controlled company	–	**(491)**
(Increase)/decrease in operating assets		
– inventories	116	**(222)**
– trade receivables	(260)	**(562)**
– prepayments, deposits and other current assets	(952)	**(239)**
– other non-current assets	(28)	**(50)**
Increase/(decrease) in operating liabilities		
– trade payables, accruals and other payables	(41)	**284**
– other long-term liabilities	(11)	**(6)**
– advances from customers	62	**(100)**
– amounts due to related companies	20	**(29)**
– amounts due to fellow subsidiaries and the ultimate holding company	(65)	**530**
– deferred income (non-current)	77	**165**
Cash generated from operations	6,273	**6,810**
Interest received	9	**40**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(4)	**(88)**
– Overseas profits tax paid	(39)	**(42)**
Net cash generated from operating activities	6,239	**6,720**

31 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS *(CONTINUED)*

(b) Major non-cash transactions

During the year ended December 31, 2011, PCCW, Telstra and the JV completed certain transactions which resulted in the transfer by PCCW and Telstra the majority of the JV's assets, business platforms and operations to the Groups. Please refer to note 5(c)(iii) for details.

As part of the Reorganization, all inter-company balances between the Groups and the ultimate holding company and the Group's fellow subsidiaries, including the Solutions Group and the Media Group, assigned or novated with a net balance between HKTGH and CAS No. 1. The net amount owing from HKTGH to CAS No. 1 was capitalized by way of HKTGH issuing one ordinary share to CAS No. 1 (see note 2(b)).

(c) Analysis of cash and cash equivalents

In HK$ million	The Groups		The Company
	2010	**2011**	**2011**
Cash and bank balances	5,476	**2,227**	**434**
Bank overdrafts	(20)	**(1)**	**–**
Cash and cash equivalents	5,456	**2,226**	**434**

32 CAPITAL MANAGEMENT

The Groups' primary objectives when managing capital are to safeguard the Groups' ability to continue as a going concern, so that it can continue to provide returns for equity holders of the Groups, to support the Groups' stability and growth; and to earn a margin commensurate with the level of business and market risks in the Groups' operation.

The Groups monitor capital by reviewing the level of capital that is at the disposal of the Groups ("adjusted capital"), taking into consideration the future capital requirements of the Groups, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises all components of equity.

The Groups are not subject to externally imposed capital requirements, except for the debt covenant requirements of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

33 FINANCIAL INSTRUMENTS

The table below analyses financial instruments by category:

In HK$ million	The Groups 2010			
	Loans and receivables	Derivatives used for hedging	Available-for-sale financial asset	Total
Non-current assets				
Available-for-sale financial asset	–	–	48	48
Derivative financial instruments	–	152	–	152
Other non-current assets	21	–	–	21
	21	152	48	221
Current assets				
Prepayments, deposits and other current assets (excluding prepayments)	1,780	–	–	1,780
Derivative financial instruments	–	17	–	17
Trade receivables, net	2,104	–	–	2,104
Cash and cash equivalents	5,456	–	–	5,456
	9,340	17	–	9,357
Total	9,361	169	48	9,578

In HK$ million	The Groups 2010		
	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Short-term borrowings	–	7,800	7,800
Trade payables	–	1,568	1,568
Accruals and other payables	–	2,019	2,019
Carrier licence fee liabilities	–	146	146
Amounts due to related companies	–	58	58
Amounts due to fellow subsidiaries and the ultimate holding company	–	4,045	4,045
	–	15,636	15,636
Non-current liabilities			
Long-term borrowings	–	27,029	27,029
Derivative financial instruments	102	–	102
Carrier licence fee liabilities	–	924	924
Other long-term liabilities	–	57	57
	102	28,010	28,112
Total	102	43,646	43,748

33 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category *(continued)*:

In HK$ million	The Groups 2011 Loans and receivables	Derivatives used for hedging	Available-for-sale financial asset	Total
Non-current assets				
Available-for-sale financial asset	–	–	72	72
Derivative financial instruments	–	275	–	275
Other non-current assets	24	–	–	24
	24	275	72	371
Current assets				
Prepayments, deposits and other current assets (excluding prepayments)	1,987	–	–	1,987
Trade receivables, net	2,541	–	–	2,541
Cash and cash equivalents	2,226	–	–	2,226
	6,754	–	–	6,754
Total	6,778	275	72	7,125

In HK$ million	The Groups 2011 Other financial liabilities at amortized cost	Total
Current liabilities		
Short-term borrowings	31	31
Trade payables	1,532	1,532
Accruals and other payables	2,315	2,315
Carrier licence fee liabilities	190	190
Amounts due to related companies	29	29
Amounts due to fellow subsidiaries and the ultimate holding company	1,282	1,282
	5,379	5,379
Non-current liabilities		
Long-term borrowings	23,470	23,470
Derivative financial instruments	–	–
Carrier licence fee liabilities	838	838
Other long-term liabilities	51	51
	24,359	24,359
Total	29,738	29,738

33 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category *(continued)*:

In HK$ million	The Company 2011 Loans and receivables	Total
Current assets		
Amount due from a subsidiary	**8,339**	**8,339**
Cash and bank balances	**434**	**434**
Total	**8,773**	**8,773**

In HK$ million	The Company 2011 Other financial liabilities at amortized cost	Total
Current liabilities		
Accruals and other payables	**53**	**53**
Amounts due to the ultimate holding company	**71**	**71**
Amount due to the immediate holding company	**917**	**917**
Total	**1,041**	**1,041**

Exposures to credit, liquidity and market (including foreign currency, interest rate) risks arise in the normal course of the Groups' business. The Groups are also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Groups' financial management policies and practices described below.

(a) Credit risk

The Groups' credit risk is primarily attributable to trade receivables, interest receivable, over-the-counter derivative transactions and cash transactions entered into for risk management purposes. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

Trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Groups maintain a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payables are requested to settle all outstanding balances before any further credit is granted. Normally, the Groups do not obtain collateral from customers. As at December 31, 2011, the Groups did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Groups' exposure to credit risk arising from trade receivables are set out in note 23(b).

33 FINANCIAL INSTRUMENTS *(CONTINUED)*

(a) Credit risk *(continued)*

Amounts due from fellow subsidiaries and the ultimate holding company, deposits and other current assets are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2011, the amounts due from fellow subsidiaries and the ultimate holding company, deposits and other current assets were fully performing.

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Groups do not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated balance sheet. Except for the guarantees given by the Groups as disclosed in note 35, the Groups do not provide any other guarantees which would expose the Groups to credit risk.

(b) Liquidity risk

The Groups' policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Groups have sufficient committed facilities to fund its operations and debt servicing requirements.

The following table details the remaining contractual maturities at the balance sheet date of the Groups' non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Groups can be required to pay:

In HK$ million	The Groups 2010					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying Amount
Current liabilities						
Short-term borrowings	(8,336)	–	–	–	(8,336)	(7,800)
Trade payables	(1,568)	–	–	–	(1,568)	(1,568)
Accruals and other payables	(2,019)	–	–	–	(2,019)	(2,019)
Carrier licence fee liabilities	(154)	–	–	–	(154)	(146)
Amounts due to related companies	(58)	–	–	–	(58)	(58)
Amounts due to fellow subsidiaries and the ultimate holding company	(4,045)	–	–	–	(4,045)	(4,045)
	(16,180)	–	–	–	(16,180)	(15,636)
Non-current liabilities						
Long-term borrowings	(752)	(752)	(19,880)	(8,931)	(30,315)	(27,029)
Derivative financial instruments	63	39	(120)	(103)	(121)	(102)
Carrier licence fee liabilities	–	(161)	(543)	(601)	(1,305)	(924)
Other long-term liabilities	(2)	(3)	(27)	(32)	(64)	(57)
	(691)	(877)	(20,570)	(9,667)	(31,805)	(28,112)
Total	(16,871)	(877)	(20,570)	(9,667)	(47,985)	(43,748)

33 FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Liquidity risk *(continued)*

In HK$ million	The Groups 2011					
	Within 1 year or on demand	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total contractual undiscounted cash flow**	**Carrying Amount**
Current liabilities						
Short-term borrowings	**(32)**	**–**	**–**	**–**	**(32)**	**(31)**
Trade payables	**(1,532)**	**–**	**–**	**–**	**(1,532)**	**(1,532)**
Accruals and other payables	**(2,315)**	**–**	**–**	**–**	**(2,315)**	**(2,315)**
Carrier licence fee liabilities	**(199)**	**–**	**–**	**–**	**(199)**	**(190)**
Amounts due to related companies	**(29)**	**–**	**–**	**–**	**(29)**	**(29)**
Amounts due to fellow subsidiaries and the ultimate holding company	**(1,282)**	**–**	**–**	**–**	**(1,282)**	**(1,282)**
	(5,389)	**–**	**–**	**–**	**(5,389)**	**(5,379)**
Non-current liabilities						
Long-term borrowings	**(686)**	**(8,750)**	**(16,011)**	**–**	**(25,447)**	**(23,470)**
Carrier licence fee liabilities	**–**	**(171)**	**(573)**	**(400)**	**(1,144)**	**(838)**
Other long-term liabilities	**(1)**	**(1)**	**(24)**	**(48)**	**(74)**	**(51)**
	(687)	**(8,922)**	**(16,608)**	**(448)**	**(26,665)**	**(24,359)**
Total	**(6,076)**	**(8,922)**	**(16,608)**	**(448)**	**(32,054)**	**(29,738)**

In HK$ million	The Company 2011					
	Within 1 year or on demand	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total contractual undiscounted cash flow**	**Carrying Amount**
Current liabilities						
Accruals and other payables	**53**	**–**	**–**	**–**	**–**	**53**
Amounts due to the ultimate holding company	**71**	**–**	**–**	**–**	**–**	**71**
Amount due to the immediate holding company	**917**	**–**	**–**	**–**	**–**	**917**
Total	**1,041**	**–**	**–**	**–**	**–**	**1,041**

33 FINANCIAL INSTRUMENTS *(CONTINUED)*

(c) Market risk

Market risk composed of foreign currency, interest rate and equity price exposures deriving from the Groups' operation, investment and funding activities. As a matter of policy, the Groups enter into cross currency swap contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Groups do not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the Boards, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Groups.

In the normal course of business, the Groups use the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in currencies of major industrial countries.

(i) Foreign currency risk

The Groups operate internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when the Groups recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Groups borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2011, a majority of the Groups' short-term and long-term borrowings denominated in United States dollars were swapped into Hong Kong dollars by cross currency swap contracts. Given this, management does not expect that there will be any significant currency risk associated with the Groups' borrowings. Certain portion of the cross currency swap contracts outstanding as at December 31, 2011 with an aggregate notional contract amount of US$1,500 million (approximately HK$11,664 million) (2010: US$2,500 million (approximately HK$19,454 million)) was designated as cash flow hedges against foreign exchange rate risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Groups ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The following table details the Groups' exposure at the balance sheet date to currency risk arising from significant recognized financial assets or liabilities denominated in foreign currencies.

33 FINANCIAL INSTRUMENTS *(CONTINUED)*

(c) Market risk *(continued)*

(i) Foreign currency risk *(continued)*

In HK$ million	The Groups			
	2010		**2011**	
	United States Dollars	Renminbi	**United States Dollars**	**Renminbi**
Trade receivables	572	148	**709**	**167**
Cash and cash equivalents	143	127	**316**	**353**
Trade payables	(736)	(139)	**(617)**	**(46)**
Amounts due to related companies	(64)	–	**(39)**	**–**
Short-term borrowings	(7,800)	–	**(31)**	**–**
Long-term borrowings	(11,518)	–	**(11,729)**	**–**
Gross exposure arising from recognized financial (liabilities)/assets	(19,403)	136	**(11,391)**	**474**
Net financial liabilities denominated in respective entities' functional currencies	(40)	(147)	**(63)**	**(485)**
Notional amounts of cross currency swap contracts designated as cash flow hedges	19,454	–	**11,664**	**–**
Overall net exposure	11	(11)	**210**	**(11)**

If Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant as at December 31, 2011, the profit after tax of the Groups for the year ended December 31, 2011 would have increased/decreased by approximately HK$1.75 million (2010: HK$0.1 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2011 would have increased/decreased by approximately HK$117 million (2010: HK$195 million) mainly as a result of foreign exchange gains/losses on the short-term and long-term borrowings being hedged by cross currency swap contracts.

If Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant as at December 31, 2011, there would be no material impact on the Groups' profit after tax for the year ended December 31, 2011.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet dates and had been applied to the Groups' exposure to currency risk for recognized assets and liabilities in existence at the dates, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the periods until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2010 and 2011.

33 FINANCIAL INSTRUMENTS *(CONTINUED)*

(c) Market risk *(continued)*

(ii) Interest rate risk

As the Groups have no significant interest-bearing assets, the Groups' income and operating cash flows are substantially independent of changes in market interest rates.

The Groups' interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Groups to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Groups draw under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Groups have entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from its fixed rate long-term borrowings.

The following table details the interest rate profile of the Groups' borrowings at the balance sheet dates, after taking into account the effect of cross currency swap contracts designated as cash flow and fair value hedging instruments.

In HK$ million, except for %	The Groups			
	2010		**2011**	
	Effective interest rate %		**Effective interest rate %**	
Net fixed rate borrowings:				
Short-term borrowings with cash flow hedging instruments	7.93	7,772	**–**	**–**
Long-term borrowings with cash flow hedging instruments	5.77	7,745	**5.77**	**7,748**
Variable rate borrowings:				
Bank borrowings	1.59	15,539	**1.44**	**11,774**
Long-term borrowings with fair value hedging instruments	4.46	3,773	**4.46**	**3,979**
Total borrowings		34,829		**23,501**

If interest rates on Hong Kong dollar denominated borrowings had been increased/decreased by 10 basis points as at December 31, 2011, with all other variables held constant, the Groups' profit after tax for the year ended December 31, 2011 would have been decreased/increased by approximately HK$11 million (2010: HK$8 million) mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the balance sheet dates and had been applied to the exposure to interest rate risk for the Groups' floating rate borrowings in existence at those dates. The 10 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the periods until the next annual balance sheet date. The analysis is performed on the same basis for the years ended December 31, 2010 and 2011.

(iii) Equity price risk

The Groups are exposed to equity price changes arising from equity investments classified as available-for-sale financial asset (note 21). The investment is listed on a recognized stock exchange.

Given the insignificant portfolio of listed equity securities held by the Groups, management believes that the Groups' equity price risk is minimal.

33 FINANCIAL INSTRUMENTS *(CONTINUED)*

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2010 and 2011 except as follows, with fair value calculated by quoted prices:

In HK$ million	The Groups			
	2010		**2011**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Short-term borrowings	(7,800)	(8,220)	**(31)**	**(31)**
Long-term borrowings	(27,029)	(27,681)	**(23,470)**	**(24,618)**

(e) Estimation of fair values

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for asset or liability that are not based on observable market data (level 3).

The following table presents the Groups' financial assets and liabilities that are measured at fair value:

In HK$ million	The Groups 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial asset				
– Listed equity securities	48	–	–	48
Derivative financial instruments (non-current)	–	152	–	152
Derivative financial instruments (current)	–	17	–	17
Total assets	48	169	–	217
Liabilities				
Derivative financial instruments (non-current)	–	(102)	–	(102)
Total liabilities	–	(102)	–	(102)

In HK$ million	The Groups **2011**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial asset				
– Listed equity securities	**72**	**–**	**–**	**72**
Derivative financial instruments (non-current)	**–**	**275**	**–**	**275**
Total assets	**72**	**275**	**–**	**347**

33 FINANCIAL INSTRUMENTS *(CONTINUED)*

(e) Estimation of fair values *(continued)*

The following table presents the Groups' financial assets and liabilities that are measured at fair value: *(continued)*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet dates. The quoted market price used for financial assets held by the Groups included in level 1 is the current bid price. Instruments included in level 1 comprise available-for-sale financial asset listed on the Alternative Investment Market operated by London Stock Exchange plc.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Instruments included in level 2 comprise cross currency swap contracts.

Specific valuation techniques used to value financial instruments include:

– Quoted market prices or dealer quotes for similar instruments.

– The fair value of cross currency swap contracts is calculated as the present value of the estimated cash flows discounted by observable interest rates.

34 COMMITMENTS

(a) Capital

In HK$ million	The Groups	
	2010	**2011**
Authorized and contracted for	856	**982**
Authorized but not contracted for	963	**887**
	1,819	**1,869**

An analysis of the above capital commitments by nature is as follows:

In HK$ million	The Groups	
	2010	**2011**
Investments	–	**52**
Acquisition of property, plant and equipment	1,819	**1,817**
	1,819	**1,869**

34 COMMITMENTS *(CONTINUED)*

(b) Operating leases

As at December 31, 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	The Groups	
	2010	**2011**
Within 1 year	457	**522**
After 1 year but within 5 years	547	**609**
After 5 years	7	**–**
	1,011	**1,131**

Network capacity and equipment

In HK$ million	The Groups	
	2010	**2011**
Within 1 year	290	**342**
After 1 year but within 5 years	259	**300**
After 5 years	62	**155**
	611	**797**

Majority of the leases typically run for a period of 1 to 12 years as at December 31, 2010 and 2011. None of the leases include contingent rentals.

(c) Others

As at December 31, 2010 and 2011, the Groups have other outstanding commitments as follows:

In HK$ million	The Groups	
	2010	**2011**
Operating expenditure commitment	248	**237**
Others	–	**–**
	248	**237**

35 CONTINGENT LIABILITIES

In HK$ million	The Groups 2010	**2011**
Performance guarantee	337	**240**
Tender guarantee	11	**1**
Guarantee in lieu of cash deposit	2	**2**
	350	**243**

Performance guarantee

The Groups are subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries and fellow subsidiaries in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained but the directors are of the opinion that any resulting liability would not materially affect the financial position of the Groups.

36 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2011 was HK$20,444 million (2010: HK$26,913 million) of which the unused facilities amounted to HK$8,559 million (2010: HK$11,091 million).

Security pledged for certain banking facilities includes:

In HK$ million	The Groups 2010	**2011**
Property, plant and equipment	23	**23**
Trade receivables	44	**37**
Bank deposit	3	**2**
	70	**62**

All of the Groups' banking facilities are subject to the fulfillment of covenants relating to certain of the Groups' balance sheet ratios, as are commonly found in lending arrangement with financial institutions. If the Groups were to breach the covenants the drawn down facilities would become payable on demand. The Groups' regularly monitors its compliance with these covenants. As at December 31, 2011, none of the covenants relating to drawn down facilities was breached. Further details of the Groups' management of liquidity risk are set out in note 33(b).

Summaries of major borrowings are set out in notes 23(c) and 24.

37 DISPOSAL OF SUBSIDIARIES

In HK$ million	2010	**2011**
Net assets disposed of:		
Property, plant and equipment	20	–
Investment properties	7	–
Interests in leasehold land	21	–
Deposits and other current assets	10	–
Deferred income tax liabilities	(5)	–
Net assets disposed of	53	–
Net realized gain on disposal of subsidiaries	41	–
Total consideration receivable from a fellow subsidiary	94	–

38 TRANSACTION WITH NON-CONTROLLING INTERESTS

On December 23, 2010, the Groups acquired an additional 15% of the issued shares of Interactive Teleservices Corporation (now known as PCCW Teleservices (US), Inc.), a subsidiary of IP BPO Holdings Pte. Ltd. for a purchase consideration of approximately HK$31 million. The carrying amount of the non-controlling interests in Interactive Teleservices Corporation on the date of acquisition was nil. The Groups recognized a decrease in equity attributable to the equity holders of the Groups of HK$31 million. The effect of changes in the ownership interest of Interactive Teleservices Corporation on the equity attributed to the equity holders of the Groups during the year ended December 31, 2011 is summarized as follows:

In HK$ million	The Groups	
	2010	**2011**
Consideration paid to non-controlling interests for an increase in ownership in a subsidiary	31	–
Less: Carrying amount of non-controlling interests acquired	–	–
Excess of consideration paid recognized in the transactions with non-controlling interests within equity	31	–

39 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUPS AND THE COMPANY

The following new or revised standards, amendments and interpretations to existing standards have been published but are not yet effective for the year ended December 31, 2011 and which the Groups have not early adopted:

		Effective for accounting periods beginning on or after
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets	July 1, 2011
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets	January 1, 2012
HKAS 1 (Revised) (Amendment)	Presentation of financial statements – Presentation of Items of Other Comprehensive Income	July 1, 2012
HKFRS 10	Consolidated financial statements	January 1, 2013
HKFRS 11	Joint arrangements	January 1, 2013
HKFRS 12	Disclosure of interests in other entities	January 1, 2013
HKFRS 13	Fair value measurements	January 1, 2013
HKAS 19 (2011)	Employee benefits	January 1, 2013
HKAS 27 (2011)	Separate Financial Statements	January 1, 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	January 1, 2013
HKFRS 9	Financial Instruments	January 1, 2015

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the year ended December 31, 2011 and have not been adopted in these financial statements.

The Groups are in the process of making an assessment of what the impact of these amendments, new or revised standards and new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards and new interpretations would have a significant impact on the Groups' results of operations and financial position.

FINANCIAL SUMMARY

For the year ended December 31, 2011

Results

In HK$ million	2008[1]	2009	2010	**2011**
Turnover by Principal Activity				
Telecommunications Services	6,827	15,646	16,021	**17,048**
Mobile	288	1,670	1,709	**1,967**
Other businesses	86	631	797	**810**
	7,201	17,947	18,527	**19,825**
Cost of sales	(2,306)	(6,642)	(7,451)	**(8,149)**
General and administrative expenses	(4,309)	(7,981)	(8,131)	**(8,510)**
Other gains/(losses), net	63	–	40	**(28)**
Losses on property, plant and equipment	–	(25)	–	**–**
Finance costs, net	(240)	(1,468)	(1,562)	**(1,504)**
Share of results of equity accounted entities	–	–	(73)	**(19)**
Profit before income tax	409	1,831	1,350	**1,615**
Income tax	(132)	(480)	(378)	**(344)**
Profit for the year	277	1,351	972	**1,271**
Attributable to:				
Holders of Share Stapled Units/shares of the Company	274	1,316	925	**1,221**
Non-controlling interests	3	35	47	**50**

Assets and Liabilities

As at December 31 in HK$ million	2008	2009	2010	**2011**
Total non-current assets	58,960	58,056	57,213	**56,854**
Total current assets	5,219	6,214	10,454	**8,184**
Total current liabilities	(12,808)	(8,134)	(17,233)	**(6,862)**
Net current (liabilities)/assets	(7,589)	(1,920)	(6,779)	**1,322**
Total assets less current liabilities	51,371	56,136	50,434	**58,176**
Total non-current liabilities	(34,283)	(37,633)	(30,921)	**(27,243)**
Net assets	17,088	18,503	19,513	**30,933**

Note:

(1) The above financial summary only included the Groups' financial results for the years ended December 31, 2008, 2009, 2010 and 2011, as no financial information of the Groups has been published for the year ended December 31, 2007. The Groups completed the acquisition of the Telecommunications Business under HKTGH in the fourth quarter of 2008 and the results were consolidated by the Groups from the date of acquisition. As such, the Groups' 2008 consolidated results only included the partial year results of the Telecommunications Business and were not directly comparable to the results for the year ended December 31, 2009, 2010 and 2011.

INDEPENDENT AUDITOR'S REPORT TO THE SOLE SHAREHOLDER OF HKT MANAGEMENT LIMITED

羅兵咸永道

TO THE SOLE SHAREHOLDER OF HKT MANAGEMENT LIMITED (香港電訊管理有限公司)
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of HKT Management Limited (the "Company") set out on pages 139 to 147, which comprise the balance sheet as at December 31, 2011, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from June 14, 2011 (date of incorporation) to December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at December 31, 2011 and of its results and cash flows for the period from June 14, 2011 (date of incorporation) to December 31, 2011 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 27, 2012

INCOME STATEMENT OF HKT MANAGEMENT LIMITED

For the period from June 14, 2011 (date of incorporation) to December 31, 2011

HK$'000	**For the period from June 14, 2011 (date of incorporation) to December 31, 2011**
Results for the period	–

The notes on pages 144 to 147 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME OF HKT MANAGEMENT LIMITED

For the period from June 14, 2011 (date of incorporation) to December 31, 2011

HK$'000	**For the period from June 14, 2011 (date of incorporation) to December 31, 2011**
Results for the period	–
Other comprehensive income	–
Total comprehensive income for the period	–

The notes on pages 144 to 147 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HKT MANAGEMENT LIMITED

For the period from June 14, 2011 (date of incorporation) to December 31, 2011

HK$'000	Share capital	Retained earnings/ (Accumulated losses)	Total
As at June 14, 2011 (date of incorporation)	–	–	–
Total comprehensive income for the period	–	–	–
As at December 31, 2011	–	–	–

The notes on pages 144 to 147 form part of these financial statements.

BALANCE SHEET OF HKT MANAGEMENT LIMITED

As at December 31, 2011

HK$'000	Note	**2011**
ASSETS		
Current assets		
Amount due from the immediate holding company	4	–
Total assets		–
CAPITAL AND RESERVES		
Share capital	6	–
Reserves		–
Total equity		–

Approved and authorized for issue by the board of directors on February 27, 2012 and signed on behalf of the board by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 144 to 147 form part of these financial statements.

STATEMENT OF CASH FLOWS OF HKT MANAGEMENT LIMITED

For the period from June 14, 2011 (date of incorporation) to December 31, 2011

HK$'000	For the period from June 14, 2011 (date of incorporation) to December 31, 2011
Profit before income tax	–
Increase in operating assets	
– amount due from the immediate holding company	–
Net cash generated from operating activities	–
Investing activities	
Net cash generated from investing activities	–
Financing activities	
Net cash used in financing activities	–
Net change in cash and cash equivalents	–
Cash and cash equivalents	
Beginning of period	–
End of period	–

The notes on pages 144 to 147 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF HKT MANAGEMENT LIMITED

1 GENERAL INFORMATION

HKT Management Limited (the "Company") was incorporated in Hong Kong under the Companies Ordinance on June 14, 2011. Its registered office is located at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. The Company is an indirect wholly-owned subsidiary of PCCW Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited.

The Company has a specific and limited role, which is to administer the HKT Trust.

During the period ended December 31, 2011, the Company did not incur any costs for administering the HKT Trust and therefore has not recognized any expenses.

The financial statements are presented in thousands units of Hong Kong dollars (HK$'000), which is the presentation and functional currency of the Company, unless otherwise stated.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term for all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Company is set out below.

This is the first set of financial statements of the Company since its date of incorporation, therefore the comparative information for period from June 14, 2011 (date of incorporation) to December 31, 2011 as required by Hong Kong Accounting Standard ("HKAS") 1 "Presentation of Financial Statements" is not available.

(b) Basis of preparation of the financial statements

The Company has not adopted any new standard or interpretation that is not effective for the current accounting period, details of which are set out in note 9.

The measurement basis used in the preparation of the financial statements is historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 3.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(c) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognized no longer exists or may have decreased.

– intercompany receivables

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a Cash-generating unit ("CGU")).

(d) Related parties

For the purposes of these financial statements, a party is considered to be related to the Company if:

i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company;

ii. the Company and the party are subject to common control;

iii. the party is an associate of the Company or a joint venture in which the Company is a venturer;

iv. the party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v. the party is a close family member of a party referred to in (i) above or is an entity under the control, joint control or significant influence of such individuals; or

vi. the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3 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 Company has no accounting estimates and judgements that would significantly affect its results and financial position.

4 RELATED PARTY TRANSACTIONS

(a) The balance with the immediate holding company is unsecured, non-interest bearing and receivable/payable on demand.

(b) The auditor's remuneration, directors' emoluments and certain administrative expenses of the Company were borne by fellow subsidiaries of the Company for the period from June 14, 2011 (date of incorporation) to December 31, 2011.

5 INCOME TAX

No Hong Kong profits tax has been provided as the Company does not have any assessable profit during the period from June 14, 2011 (date of incorporation) to December 31, 2011.

No deferred income tax asset and liability was recognized as at December 31, 2011.

6 SHARE CAPITAL

	2011	
	Number of Shares	**Nominal value**
		HK$
Authorized:		
Ordinary shares of HK$1 each		
Beginning and end of period	**10,000**	**10,000**
Issued and fully paid:		
Ordinary shares of HK$1 each		
Issue of an ordinary share at the date of incorporation	**1**	**1**
End of period	**1**	**1**

7 CAPITAL MANAGEMENT

The Company has a specific and limited role to administer the HKT Trust. It is not actively engaged in running the telecommunications business which is managed by HKT Limited, a fellow subsidiary of the Company, and the operating subsidiaries of HKT Limited. Therefore, the Company is not subject to externally imposed capital requirements.

8 FINANCIAL INSTRUMENTS

As the principal activity of the Company is to administer the HKT Trust, the Company is not exposed to market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk, credit risk and liquidity risk). Risk management is carried out under policies approved by the board of directors.

9 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD ENDED DECEMBER 31, 2011

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2011 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets	July 1, 2011
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets	January 1, 2012
HKAS 1 (Revised) (Amendment)	Presentation of financial statements – Presentation of Items of Other Comprehensive Income	July 1, 2012
HKFRS 10	Consolidated financial statements	January 1, 2013
HKFRS 11	Joint arrangements	January 1, 2013
HKFRS 12	Disclosure of interests in other entities	January 1, 2013
HKFRS 13	Fair value measurements	January 1, 2013
HKAS 19 (2011)	Employee benefits	January 1, 2013
HKAS 27 (2011)	Separate Financial Statements	January 1, 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	January 1, 2013
HKFRS 9	Financial Instruments	January 1, 2015

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2011 and have not been adopted in these financial statements.

The Company is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards and new interpretations would have a significant impact on the Company's results of operations and financial position.

CORPORATE INFORMATION

HKT LIMITED

(incorporated in the Cayman Islands with limited liability)

BOARD OF DIRECTORS

Executive Directors:
Li Tzar Kai, Richard *(Executive Chairman)*
Alexander Anthony Arena *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*

Non-Executive Directors:
Peter Anthony Allen
Chung Cho Yee, Mico
Lu Yimin
Li Fushen

Independent Non-Executive Directors:
Professor Chang Hsin Kang, FREng, GBS, JP
Sir Rogerio (Roger) Hyndman Lobo, CBE, LLD, JP
The Hon Raymond George Hardenbergh Seitz
Sunil Varma

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Philana WY Poon

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

39th Floor, PCCW Tower
TaiKoo Place, 979 King's Road
Quarry Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8555 Fax: +852 2865 0990

LISTING

The share stapled units of the HKT Trust and HKT Limited are listed on The Stock Exchange of Hong Kong Limited.

STOCK CODES

The Stock Exchange of Hong Kong Limited	6823
Reuters	6823.HK
Bloomberg	6823 HK

WEBSITE

www.hkt.com

HKT MANAGEMENT LIMITED

(incorporated in Hong Kong with limited liability)
(THE TRUSTEE-MANAGER OF THE HKT TRUST)

BOARD OF DIRECTORS

Executive Directors:
Li Tzar Kai, Richard *(Executive Chairman)*
Alexander Anthony Arena *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*

Non-Executive Directors:
Peter Anthony Allen
Chung Cho Yee, Mico
Lu Yimin
Li Fushen

Independent Non-Executive Directors:
Professor Chang Hsin Kang, FREng, GBS, JP
Sir Rogerio (Roger) Hyndman Lobo, CBE, LLD, JP
The Hon Raymond George Hardenbergh Seitz
Sunil Varma

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Philana WY Poon

REGISTERED OFFICE

39th Floor, PCCW Tower
TaiKoo Place, 979 King's Road
Quarry Bay, Hong Kong

SHARE STAPLED UNITS REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8555 Fax: +852 2865 0990

SHARE STAPLED UNITS INFORMATION

Board lot:	1,000 units
Issued units as at December 31, 2011:	6,416,730,792 units

DIVIDEND/DISTRIBUTION

Dividend/distribution per ordinary share/share stapled unit for the year ended December 31, 2011:

Final dividend/distribution per ordinary share/share stapled unit	3.36 HK cents

2011 ANNUAL REPORT

This 2011 Annual Report in both English and Chinese is now available in printed form from HKT Limited, HKT Management Limited and the Share Stapled Units Registrar, and in accessible format on the websites of HKT Limited (www.hkt.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

INVESTOR RELATIONS

Other inquiries regarding the HKT Trust, HKT Management Limited and HKT Limited should be addressed to Investor Relations at telephone: +852 2514 5084 or email: ir@hkt.com.

Forward-Looking Statements

This annual report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict”, “is confident”, “has confidence” and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of HKT about the business, industry and markets in which we operate.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- increased competition in the Hong Kong telecommunications market;
- possible negative effects of potentially new legislation, regulations, guidelines, decisions or directives;
- possible negative effects of potentially new regulatory developments;
- our ability to implement our business plan as a consequence of our substantial debt;
- our exposure to interest rate risk;
- our ability to obtain additional capital; and
- our ability to execute our business strategy, including our ability to enter into business combinations and restructuring, strategic investments and acquisitions.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of HKT as at the date of this annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

HKT Trust (A trust constituted on November 7, 2011 under the laws of Hong Kong and managed by HKT Management Limited)
and
HKT Limited (Incorporated in the Cayman Islands with limited liability)

Principal Place of Business in Hong Kong:
39/F, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong
T: +852 2888 2888 F: +852 2877 8877 www.hkt.com

The Share Stapled Units are listed on The Stock Exchange of Hong Kong Limited (SEHK: 6823).