Annual Report 2014

Stock Code: 0008

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CORPORATE PROFILE

PCCW Limited (PCCW or the Company) is a Hong Kong-based company which holds interests in telecommunications, media, IT solutions, property development and investment, and other businesses.

The Company holds a majority interest in the HKT Trust and HKT Limited, Hong Kong's premier telecommunications service provider. HKT 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.

PCCW also owns a fully integrated multimedia and entertainment group in Hong Kong, which includes a highly successful IPTV operation, now TV. As the provider of Hong Kong's first quadruple-play experience, PCCW offers a range of innovative media content and services across four delivery platforms – fixed-line, broadband Internet access, TV and mobile.

Also wholly-owned by the Group, PCCW Solutions is a leading information technology outsourcing and business process outsourcing provider in Hong Kong and mainland China.

In addition, PCCW holds a majority interest in Pacific Century Premium Developments Limited, and overseas investments including the wholly-owned UK Broadband Limited.

Employing approximately 23,500 staff, PCCW maintains a presence in Hong Kong, mainland China as well as other parts of the world.

PCCW shares are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008) and traded in the form of American Depositary Receipts (ADRs) on the OTC Markets Group Inc. in the U.S. (Ticker: PCCWY).

SIGNIFICANT EVENTS IN 2014

FEBRUARY

PCCW announces robust financial results for the year ended December 31, 2013.

now TV launches select now branded channels on Bell's Fibe TV of Canada as part of its content distribution business development.

MARCH

Pacific Century Premium Developments' office building project in Jakarta, Indonesia achieves the coveted LEED Platinum Grade Pre-certification awarded by US Green Building Council, the first of its type in Indonesia.

APRIL

Pacific Century Premium Developments sells its interest in Pacific Century Place, Beijing.

MAY

HKT completes the acquisition of CSL New World Mobility Limited (now known as CSL Holdings Limited) on May 14, becoming the largest mobile service operator in Hong Kong.

JUNE

Music service MOOV releases a brand new version of MOOV music app.

JULY

Mr. BG Srinivas succeeds Mr. George Chan as the Group Managing Director of PCCW.

AUGUST

Mr. Zhang Junan is appointed as a Non-Executive Director of PCCW.

PCCW reports healthy financial results for the six months ended June 30, 2014.

now TV's first TV drama co-production, "The Virtuous Queen of Han", debuts on three major mainland TV stations, achieving top TV ratings.

SEPTEMBER

PCCW Solutions launches iVisionBanking solution, a next-generation core banking and finance solution.

OCTOBER

PCCW Solutions officially opens the Powerb@se MCX10 Data Center in Kwai Chung.

PCCW Solutions launches the Enterprise Solutions Superstore Alliance Incubation Program to facilitate technology start-ups.

DECEMBER

now TV achieves the highest rating of news and finance TV programs among four local TV stations in a survey conducted by The University of Hong Kong.

now TV introduces Hong Kong's first television audience measurement using Return-Path-Data technology for tracking cross-platform viewership.

PCCW receives an award for the highest service hours of volunteer services from the Social Welfare Department.

now TV is granted renewal of its pay-TV license for another 12 years commencing September 2015.

HKT becomes Hong Kong's first mobile operator to upgrade its mobile network to 4G LTE-Advanced at 300Mbps.

AWARDS

Award	Awardee	Scheme Organizer
Asia Pacific ICT Alliances (APICTA) Awards 2014 • Government and Public Sector category – merit award	PCCW Solutions	Asia Pacific ICT Alliances
Award of 10,000 Hours for Volunteer Service	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Best of IT Awards 2013 • My Favorite IPTV Service Award • My Favorite Mobile App Award	now TV	*PC Market*
China Software Industry Awards 2014 • Best Banking Industry Solutions Award • Best ERP Service Provider Award	PCCW Solutions	China Software Industry Association
Computerworld Hong Kong Awards 2014 • Best Data Center Service Award	PCCW Solutions	*Computerworld Hong Kong*
e-brand awards 2014 • The Best of Data Center • The Best of Managed Security Service Provider • The Best of IPTV	PCCW Solutions now TV	*e-zone*
HKQAA 25th Anniversary Recognition Programme • Outstanding Organisation with Comprehensive Management Systems	PCCW Solutions	Hong Kong Quality Assurance Agency
Hong Kong ICT Awards 2014 • Best Business Solution Grand Award • Best Business Solution (Application) Gold Award	PCCW Solutions	Office of the Government Chief Information Officer

PCCW Solutions and two partners have won the Best Business Solution Grand Award for an outstanding engineering works management system at the Hong Kong ICT Awards 2014 steered by Office of the Government Chief Information Officer.

now TV has swept eight awards including the overall Gold Award in the TV category at the Media Convergence Awards 2013 organized by the Hong Kong Association of Interactive Marketing.

Award	Awardee	Scheme Organizer
Hong Kong Internet of Things (IoT) Awards 2014 • RFID Application Innovation bronze award • RFID Implementation Excellence bronze award	PCCW Solutions	GS1 Hong Kong
Media Convergence Awards 2013 • Media Convergence Awards: TV Category (Overall) – Gold Award • Media Convergence Awards: TV Category (Mobile App) – Gold Award • Media Convergence Awards: TV Category (Social Media) – Gold Award • Media Convergence Awards: TV Category (Website) – Gold Award • Media Convergence Awards (Overall Excellence) – Silver Award • Media Convergence Awards (Mobile App) – Silver Award • Media Convergence Awards (Website) – Silver Award • Media Convergence Awards – Merit	now TV	Hong Kong Association of Interactive Marketing
Merit of Highest Service Hour Award in 2013 (Private Organisations – Category 1)	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Metro Creative Awards 2014 • Best Copy line Adv	now TV	*Metro Daily*
Outstanding Volunteer Awards	PCCW	Social Welfare Department – Eastern and Wan Chai Districts
PCM Biz IT Excellence Awards 2014 • IT Solutions Excellence (Enterprise Solutions Superstore Alliance, Smart Shelf and Magic Mirror)	PCCW Solutions	*PC Market*
2014 PromaxBDA Asia Awards • Best Leisure & Lifestyle Promo – Gold • Best In-house Station Image – Silver	now TV	PromaxBDA Asia
SMB World Awards 2014 • Best IT Outsourcing Services Provider	PCCW Solutions	*SMB World*

PCCW has received an award for the highest service hours of volunteer services from the Social Welfare Department for the 13th straight year.

Award	Awardee	Scheme Organizer
Social Capital Builder	PCCW	Community Investment and Inclusion Fund, Labour and Welfare Bureau
Top 50 China Cloud Computing Solutions Providers	PCCW Solutions	Business Partner Consulting Organization
2013 Top 10 China IT Outsourcing Service Enterprises • No. 1	PCCW Solutions	China Software and Services Outsourcing Network
TOUCH Brands 2014	now TV	*East TOUCH*
Yahoo emotive brand awards 2013-2014 • Entertainment category	now TV	Yahoo Hong Kong
10 Years Plus Caring Company Logo	PCCW	The Hong Kong Council of Social Service

This award list does not include awards to HKT Limited and Pacific Century Premium Developments Limited. Please refer to the annual reports of the two companies for related information.

KEY FIGURES

FINANCIAL HIGHLIGHTS

For the year ended December 31, 2014
In HK$ million (except for per share data)

	2013	**2014**
Turnover		
Core revenue*	26,643	**32,962**
PCPD	674	**315**
	27,317	**33,277**
Cost of sales	(13,111)	**(15,151)**
General and administrative expenses	(10,735)	**(14,091)**
Other gains, net	685	**2,717**
Interest income	80	**90**
Finance costs	(1,111)	**(1,418)**
Share of results of associates	57	**45**
Share of results of joint ventures	83	**5**
Profit before income tax	3,265	**5,474**
Income tax	(210)	**(803)**
Profit for the year	3,055	**4,671**
Attributable to:		
Equity holders of the Company	1,885	**3,310**
Non-controlling interests	1,170	**1,361**
Earnings per share (in HK cents)		
Basic	25.98	**45.14**
Diluted	25.95	**45.05**
Dividends per share (in HK cents)		
Interim dividend	6.35	**6.99**
Final dividend proposed after the end of the reporting period	13.85	**13.21**
EBITDA[1]		
Core EBITDA*	8,129	**10,506**
PCPD	(96)	**(166)**
	8,033	**10,340**

*Note: Please refer to page 27. Note 1: Please refer to page 29.

STATEMENT FROM THE CHAIRMAN

I am pleased to report that PCCW recorded strong operational and financial performance of its core businesses in the year ended December 31, 2014.

In its bid to become a leading digital news and entertainment service provider, the media business has widened its regional and international footprint of content distribution and has been actively developing its OTT (over-the-top) service in Hong Kong in the past year. Locally, now TV also further consolidated its pay-TV leadership with increases in both the subscription base and ARPU (average revenue per user).

PCCW Solutions continued to win significant IT service contracts and opened a major world-class data center during the year. The company differentiates itself in the market by providing a comprehensive service platform to support customer business transformation in the digital world. The launch of a new banking and finance solution during the year marked its foray into offering industry-specific packages with full intellectual property rights.

In this increasingly mobile-centric age, HKT's elevation to become the leading mobile service provider in Hong Kong following its acquisition of CSL last May has brought significant benefits to customers. Continued integration efforts will realize further synergies and create additional value for shareholders. Meanwhile, our local fixed broadband and global connectivity businesses also saw healthy growth last year.

On property, Pacific Century Premium Developments' existing projects in Indonesia, Japan and Thailand are progressing according to schedule. The company will examine opportunities in Asia and around the world to enrich its portfolio in a diverse range of properties including residential, office, commercial, and hotel and resort.

In 2015, the economic environments both in Hong Kong and elsewhere globally are faced with some uncertainties. However, I am confident that the management team steered by Mr. BG Srinivas, who joined PCCW as Group Managing Director in July, will take the group to a higher level.

Finally, the Board welcomes Mr. Zhang Junan, who joined the Board as a Non-Executive Director in August, succeeding Mr. Li Gang who has made valuable contributions to the Group over the past few years.

Richard Li
Chairman
February 11, 2015

STATEMENT FROM THE GROUP MANAGING DIRECTOR

It is my pleasure to present my first Annual Report statement as the Group Managing Director of PCCW Limited.

The world has been changing rapidly, and consumers and enterprises are increasingly embracing a digital lifestyle. Together with disruptive technologies, the digital phenomenon is ushering in new business models, increasing globalization, posing threats to conventional businesses but also bringing in new opportunities. We cannot but simply embrace this, leverage new technologies and reinvent ourselves to address the opportunities. PCCW Group has the intellectual assets and capabilities to become the digital transformation partner for our clients; and each of our core businesses has been responding to these trend and developments.

EXPANDING DIGITAL MEDIA SERVICE

Having further consolidated its pay-TV leadership in Hong Kong, our media group has been actively expanding its regional and international content distribution business as well as developing our digital OTT service in Hong Kong with a focus on entertainment and music.

Our first TV drama series, The Virtuous Queen of Han, debuted in the second half of last year, attracting huge audiences of leading TV stations and top online video platforms in mainland China. The series also has reached 13 other markets including Cambodia, Japan, Malaysia, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, The Philippines, and Vietnam in the region, as well as Australia, New Zealand and North America. The Cantonese version was broadcast on now TV and via mobile app in Hong Kong in January 2015. Given the success of this project, more co-production dramas are in the pipeline.

With a number of partnerships with overseas broadcasters, now branded content can currently be viewed across many Chinese communities in Asia and in North America, having further expanded its footprint from a year ago. The latest addition was the January 2015 launch of the now Baogu movie branded block on a leading cable operator in Taiwan which reaches 800,000 subscribers.

In the music segment, a brand new version of MOOV music app was launched last June to offer high quality audio and video music service, at the same time paving the way for the internationalization of the product. We have reached an agreement with BesTV, the biggest IPTV operator in China, to roll out MOOV nationally as its exclusive music partner. In addition to Guangdong, MOOV's footprint will cover Fujian, Shanghai and Xinjiang in February 2015.

now TV viewers have over the years embraced a multi-channel, multi-platform viewing behavior, not only enjoying our offering of over 190 channels on a broadcast and on-demand viewing basis, but also via companion apps on the go. For instance, the now NEWS app is a popular source of professional news reports and commentaries. Last year, the number of downloads of the app exceeded one million and it was ranked for a period among the top free apps in both App Store and Google Play.

In view of the current viewing habits, now TV announced in December the introduction of Hong Kong's first TV audience measurement using Return-Path-Data (RPD) technology. now TV aims to better service its advertisers and advertising and media agencies by offering viewing analysis of now TV content across multiple platforms.

In December, the CE in Council approved the renewal of now TV's current Domestic Pay Television Programme Service License for another 12 years from September 2015.

Meanwhile, as of the year-end, we were still in discussion with the Hong Kong Government regarding the final license terms of the Domestic Free Television Programme Service License for HK Television Entertainment Company Limited.

ENABLING DIGITAL TRANSFORMATION OF BUSINESSES

PCCW Solutions, the Group's enterprise IT flagship, last year focused on establishing itself as the partner of choice for customers undergoing the transformation into a digital business. As the market leader in Hong Kong, it continued to win significant and long-term contracts from both the private and public sectors for project implementation, outsourcing and data center services. In mainland China, the business registered another year of high growth as we applied our expertise to more diversified industries.

The opening earlier last year of a world-class data center in Kwai Chung with strong anchor tenants is testament to the team's business acumen and capability to meet the growing cloud and data center needs of enterprises. Opening in phases, the Powerb@se MCX10 Data Center is PCCW Solutions' 10th data center facility in Hong Kong and mainland China. It supports a full spectrum of cloud services – ranging from infrastructure, platform, software, content to process – offered by PCCW Solutions and its technology partners, thereby offering great flexibility to fulfill customers' changing business requirements.

To cater to the new demands of application delivery and data management, PCCW Solutions has been taking on a more active role to support the end users, from the traditional role of providing physical data storage facility to offering digital infrastructure and vertical applications for different segments, so that customers can conduct their digital business and even cross-border operations simply and effectively. In this connection, PCCW Solutions has also launched the Enterprise Solutions Superstore Alliance (ESSA) Incubation Program in support of social enterprise development. The program aims to facilitate technology start-ups by offering cloud resources, office space and facilities at the Kwai Chung facility as well as technical support and business consultation.

Banking and finance is a key growth area of enterprise solutions. In September, PCCW Solutions launched iVisionBanking, the next-generation core banking and finance solution which combines the most advanced IT technology in the industry with international best practices. Offering a wide range of features including business intelligence, mobile banking and a multi-language operating system, iVisionBanking meets customers' needs in terms of interest rate liberalization, big data, mobile finance, risk management, Internet finance and customer relationship management. Customers can enhance the services of their core business systems to conform to international banking and finance operation standards.

MARKET LEADER IN TELECOM SERVICES

As the premier service provider in Hong Kong, HKT continued to successfully execute its strategy to provide unparalleled network quality, innovative products and value-added features, and excellent customer service while growing its business.

HKT's acquisition of CSL New World Mobility Limited (CSLNW – now known as CSL Holdings Limited) was completed in May 2014. HKT has re-launched its mobile brands, rationalized the retail channels, simplified the service plans and embarked on integration of the networks. Network integration and enhancement work will continue throughout 2015 in order to further improve network service quality, while unlocking operational synergies.

To add value for customers, csl. announced in December the upgrade of its mobile network to 4G LTE-Advanced at 300Mbps download speed – a first in the market and a substantial step-up from the previous 150Mbps. This upgrade will progressively cover Hong Kong through 2015.

The fixed broadband business experienced intensified competition last year, but HKT continued to register an encouraging increase in the number of customers enjoying genuine fiber-to-the-home (FTTH) service, which has exceeded half a million.

The local commercial business reported satisfactory performance despite the fact that the business sector was cautious about telecom spending amid a softer economy. The acquisition of CSLNW has enhanced HKT's unrivalled ability to offer a range of end-to-end fixed-mobile integration (FMI) solutions.

Internationally, PCCW Global continued to expand its connectivity coverage and enrich its service portfolio. For example, it raised its network security capability through the acquisition of a European company specializing in solutions for detecting and responding to cyber threats.

PROPERTY DEVELOPMENT AND INVESTMENT

With the completion of the sale of Pacific Century Place in Beijing in August 2014, Pacific Century Premium Developments (PCPD) will focus on continued development of its existing projects which will be funded in part from the sale proceeds, while identifying new investment opportunities given its strengthened financial position.

PCPD's existing hotel and resort projects in Japan and Thailand are progressing well. The premium office building project in Jakarta, Indonesia has also seen encouraging development in the last few months. The foundation and the basement wall have been completed and the basement excavation work is now underway. This project was selected as one of the finalists in the Building Projects under Design category for the Green Building Award 2014 organized by the Hong Kong Green Building Council. PCPD is confident that the building will be completed and fully operational in 2017.

PCPD will continue to look for attractive opportunities in the region and farther away where it may further build up its portfolio and replicate its success in the development of large-scale property projects.

OUTLOOK

The Media group has been making good progress in its transformation into a leading digital media and entertainment company through development of its regional and international content distribution and OTT service in Hong Kong. The team will also ensure that now TV being the market leader by far continues to offer customers the best viewing experience with quality production.

The Solutions business looks forward to further expansion both in terms of competencies and geographical reach into the U.S. and European markets in the coming year. We will augment our global capabilities in the digital ecosystem in order to become the digital partner of choice.

HKT's acquisition of CSLNW has firmly established itself as the leading telecom service provider in Hong Kong in not only fixed line and broadband, but also mobile communications. We expect that more significant synergies can be realized in the coming periods and HKT's business propositions further strengthened by its offerings of integrated and value-added services such as FMI solutions.

The global economy continues to face uncertainties in the new year while local economic growth has slowed down. In view of 2015 looking set to be a year of both challenges and opportunities, the management team will steadfastly execute its strategies to further grow our businesses while closely monitoring the external environment.

PCCW's vision is to become a global leader in the increasingly digital world. Given our excellent local and global connectivity, strong media content production and delivery platform, and first-class IT capability, the management team believes that we can further build on our strengths to drive digital lifestyle and experience to its fullest.

BG Srinivas
Group Managing Director
February 11, 2015

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Mr Li, aged 48, was appointed an Executive Director and the Chairman of PCCW in August 1999. He is the Chairman of PCCW's Executive Committee and a member of the Nomination Committee of the Board. He is also the Chairman and Chief Executive of the Pacific Century Group, the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, the Chairman of HKT's Executive Committee and a member of HKT's Nomination Committee, an Executive Director and the Chairman of Pacific Century Premium Developments Limited (PCPD), the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, the Chairman and an Executive Director of Singapore-based Pacific Century Regional Developments Limited (PCRD), and the Chairman of PCRD's Executive Committee.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited. He is also a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and 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.

Srinivas Bangalore GANGAIAH (aka BG Srinivas)

Group Managing Director

Mr Srinivas, aged 54, was appointed an Executive Director and Group Managing Director of PCCW in July 2014. He is a member of PCCW's Executive Committee. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust.

Mr Srinivas holds a degree in mechanical engineering from Bangalore University, India, and has participated in executive programs at Wharton Business School, US, and Indian Institute of Management Ahmedabad (IIMA), India. Prior to joining PCCW, Mr Srinivas has worked for the last 15 years with Infosys Group, where his last role was the President and Whole-time Director of Infosys Limited. He has also acted as Chairman of the board of Infosys Lodestone and a member of the board of Infosys Sweden. Prior to that, Mr Srinivas worked for 14 years with Asea Brown Boveri Group, where he held several leadership positions. Mr Srinivas has been on the panel of judges for the European Business Awards (EBA) for three consecutive years and is a frequent speaker at academic institutions such as INSEAD and Saïd Business School, Oxford.

HUI Hon Hing, Susanna

Group Chief Financial Officer

Ms Hui, aged 50, was appointed an Executive Director of PCCW in May 2010. She is a member of PCCW's Executive Committee. She has been the Group Chief Financial Officer of PCCW since April 2007 and holds directorships in various PCCW group companies. She is also an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust. Ms Hui is a member of HKT's Executive Committee and the Group Chief Financial Officer of HKT. Prior to her appointment as the Group Chief Financial Officer of PCCW, Ms Hui was the Director of Group Finance of PCCW from September 2006 to April 2007. Before that, Ms Hui was the Director of Finance of PCCW, with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was 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.

LEE Chi Hong, Robert
Executive Director
Mr Lee, aged 63, was appointed an Executive Director of PCCW in September 2002. He is a member of PCCW's Executive Committee and is a Director of certain PCCW subsidiaries. He is also an Executive Director, the Chief Executive Officer and Deputy Chairman of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee.

Mr Lee was previously an Executive Director of Sino Land Company Limited (Sino Land), at which his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management. Prior to joining Sino Land, Mr Lee was a senior partner at Deacons in Hong Kong, where he specialized in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Before that, he was a solicitor with the London firm Pritchard Englefield & Tobin (now Thomas Eggar incorporating Pritchard Englefield). He was enrolled as a solicitor in the United Kingdom in 1979 and admitted as a solicitor in Hong Kong in 1980. Mr Lee became a Notary Public in Hong Kong in 1991.

Mr Lee had also served as a member of the panel of arbitrators of the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing.

Mr Lee is a member of the International Council of the Louvre as well as Ambassador for the Louvre in China.

He graduated from Cornell University in the United States in 1975 with a bachelor's degree in political science.

NON-EXECUTIVE DIRECTORS

Sir David FORD, KBE, LVO
Non-Executive Director
Sir David, aged 79, was appointed a Non-Executive Director of PCCW in June 2002 and is a Director of certain PCCW subsidiaries. He is also a Director of certain companies controlled by Mr Li Tzar Kai, Richard, the Chairman of PCCW. He started his working life as an army officer in the Royal Artillery and served in five continents. During his last five years with the army, he served with the Commando Brigade and saw active service in Aden and Borneo.

Sir David left the army in 1972 and subsequently spent more than 20 years in Hong Kong, holding a number of appointments as a senior civil servant in the Hong Kong Government and one appointment in the Northern Ireland Office.

He attended the Royal College of Defence Studies in 1982. He was Chief Secretary and Deputy Governor of the Hong Kong Government from 1986 to 1993, before becoming the Hong Kong Commissioner in London until the change of sovereignty in Hong Kong in 1997.

TSE Sze Wing, Edmund, GBS
Non-Executive Director
Mr Tse, aged 77, is a Non-Executive Director of PCCW. He was an Independent Non-Executive Director of PCCW from September 2009 to March 2011 and was re-designated to a Non-Executive Director of PCCW in March 2011. He is also a member of the Regulatory Compliance Committee of the Board.

Mr Tse is the Non-Executive Chairman and a Non-Executive Director of AIA Group Limited. He is also the Chairman of The Philippine American Life and General Insurance Company. From 1996 until June 2009, Mr Tse was Director of American International Group, Inc. (AIG) and from 2001 until June 2009, he was Senior Vice Chairman – Life Insurance of AIG. From 2000 until June 2009, he was also Chairman and Chief Executive Officer of American International Assurance Company, Limited (now known as AIA Company Limited). Mr Tse has held various senior positions and directorships in other AIG companies. Mr Tse is also the Non-Executive Chairman for Asia ex-Japan of PineBridge Investments Asia Limited and a Director of Bridge Holdings Company Limited which are asset management companies owned indirectly by Mr Li Tzar Kai, Richard, the Chairman of PCCW. Mr Tse was a Non-Executive Director of PICC Property and Casualty Company Limited from June 2004 until July 2014.

Mr Tse was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2001 in recognition of his outstanding efforts in respect of the development of Hong Kong's insurance industry. Mr Tse graduated with a Bachelor of Arts degree in Mathematics from the University of Hong Kong (HKU) in 1960. HKU conferred an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences on Mr Tse in 1998 and 2002 respectively. He also obtained diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has extensive management experience in the insurance market, both in Asia and globally. In 2003, Mr Tse was elected to the Insurance Hall of Fame, and is so far the only Chinese to receive this most prestigious award in the global insurance industry. Mr Tse serves many community and professional organizations as well as educational institutions. He is also a director of AIA Foundation, which supports charitable causes in Hong Kong.

LU Yimin

Deputy Chairman

Mr Lu, aged 51, became a Non-Executive Director of PCCW in May 2008. He was appointed Deputy Chairman in November 2011 and is a member of PCCW's Executive Committee. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and a member of HKT's Remuneration Committee, Nomination Committee and 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 52, became a Non-Executive Director of PCCW in July 2007 and is a member of the Nomination Committee of the Board. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust and is a member of HKT's Regulatory Compliance Committee.

Mr Li is an Executive Director and Chief Financial Officer of China Unicom (Hong Kong) Limited (Unicom HK). He is a Director, 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.

ZHANG Junan

Non-Executive Director

Mr Zhang, aged 57, became a Non-Executive Director of PCCW in August 2014 and is a member of the Remuneration Committee of the Board.

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

Mr Zhang joined 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#) in December 2005 and currently serves as Vice President. Mr Zhang was appointed as Vice President of Unicom HK in April 2006, Executive Director of Unicom HK from April 2006 to October 2008 and Senior Vice President of Unicom HK in February 2009. He previously served as a Director of Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and a Deputy Director of Anhui Provincial Posts and Telecommunications Bureau. From 2000 to 2005, he served as a Deputy General Manager and General Manager of Anhui Provincial Telecommunications Company and Chairman and General Manager of Anhui Provincial Telecommunications Co., Limited. In addition, Mr Zhang serves as a Non-Executive Director of China Communications Services Corporation Limited.

Mr Zhang graduated from Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, received a master's degree in Business Administration from Australian National University in 2002 and received a doctor's degree in Business Administration from Hong Kong Polytechnic University in 2008. Mr Zhang has worked in the telecommunications industry for a long period of time and has rich management experience.

For identification only

WEI Zhe, David
Non-Executive Director
Mr Wei, aged 44, is a Non-Executive Director of PCCW. He was appointed an Independent Non-Executive Director of PCCW in November 2011 and was re-designated to a Non-Executive Director of PCCW in May 2012. He is also a member of the Remuneration Committee of the Board.

Mr Wei has over 15 years of experience in both investment and operational management in the People's Republic of China. Prior to launching Vision Knight Capital (China) Fund I, L.P., a private equity investment fund in 2011, Mr Wei was an executive director and chief executive officer of Alibaba.com Limited, a leading worldwide B2B e-commerce company, for about five years, where he successfully led the company through its initial public offering and listing on The Stock Exchange of Hong Kong Limited in 2007. Alibaba.com Limited was delisted in June 2012. Prior to Alibaba.com Limited, Mr Wei was the president, from 2002 to 2006, and chief financial officer, from 2000 to 2002, of B&Q China, a subsidiary of Kingfisher plc, a leading home improvement retailer in Europe and Asia. Under Mr Wei's leadership, B&Q China grew to become China's largest home improvement retailer. From 2003 to 2006, Mr Wei was also the chief representative for Kingfisher's China sourcing office, Kingfisher Asia Limited. Prior to that, Mr Wei served as the head of investment banking at Orient Securities Company Limited from 1998 to 2000, and as corporate finance manager at Coopers & Lybrand (now part of PricewaterhouseCoopers) from 1995 to 1998. Mr Wei was a non-executive director of HSBC Bank (China) Company Limited and The Hongkong and Shanghai Banking Corporation Limited, and was also the vice chairman of China Chain Store & Franchise Association. He was voted as one of "China's Best CEOs" by FinanceAsia magazine in 2010. Mr Wei is also an independent director of Leju Holdings Limited and 500.com Limited which are listed on the New York Stock Exchange.

He holds a bachelor's degree in international business management from Shanghai International Studies University and has completed a corporate finance program at London Business School.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr The Hon Sir David LI Kwok Po, GBM, GBS, OBE, JP
Independent Non-Executive Director
Sir David, aged 75, was appointed a Director of PCCW in October 2000. He was previously a Non-Executive Deputy Chairman of the former Hong Kong-listed Cable & Wireless HKT Limited and served as a Director from November 1987 to August 2000. He is a member of the Remuneration Committee, the Nomination Committee and the Regulatory Compliance Committee of the Board.

Sir David is the Chairman and Chief Executive of The Bank of East Asia, Limited. He is also a Director of Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, Hong Kong Interbank Clearing Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited. He was a Director of COSCO Pacific Limited, China Overseas Land & Investment Limited, AFFIN Holdings Berhad and CaixaBank, S.A.

Sir David is the Chairman of The Chinese Banks' Association Limited and a member of the Council of the Treasury Markets Association. He was a member of the Legislative Council of Hong Kong and a member of the Banking Advisory Committee.

Aman MEHTA
Independent Non-Executive Director
Mr Mehta, aged 68, became an Independent Non-Executive Director of PCCW in February 2004 and is the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Board. He is also an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and the Chairman of HKT's Nomination Committee.

He joined the Board following a distinguished career in the international banking community. Mr Mehta held the position of Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited (HSBC) until December 2003, when he retired.

Born in India in 1946, Mr Mehta joined HSBC group in Bombay in 1967. After a number of assignments throughout HSBC group, he was appointed Manager – Corporate Planning at HSBC's headquarters in Hong Kong in 1985. After a three-year posting to Riyadh in Saudi Arabia, he was appointed Group General Manager in 1991, and General Manager – International the following year, with responsibility for overseas subsidiaries. He subsequently held senior positions in the United States, overseeing HSBC group companies in the Americas and later becoming responsible for HSBC's operations in the Middle East.

In 1998, Mr Mehta was reappointed General Manager – International, after which he became Executive Director International. In 1999, he was appointed Chief Executive Officer, a position he held until retirement.

Following his retirement in December 2003, Mr Mehta took up residence in New Delhi. He is an Independent Director on the board of several public companies and institutions in India and internationally. He is an Independent Non-Executive Director of Vedanta Resources plc in the United Kingdom, Tata Consultancy Services Limited, Godrej Consumer Products Limited, Jet Airways (India) Limited and Wockhardt Limited in Mumbai, India; and Max India Limited and Cairn India Limited in New Delhi, India. He was an Independent Non-Executive Director of Emaar MGF Land Limited and an Independent Director on the Supervisory Board of ING Groep N.V., a Netherlands company.

Mr Mehta is also a member of the Governing Board of Indian School of Business, Hyderabad, and a member of the Advisory Panel of Prudential Financial Inc. in the United States.

Frances Waikwun WONG
Independent Non-Executive Director

Ms Wong, aged 53, was appointed an Independent Non-Executive Director of PCCW in March 2012 and is the Chairwoman of the Regulatory Compliance Committee and a member of the Nomination Committee of the Board. She is also an Independent Non-Executive Director of Pacific Century Regional Developments Limited.

Ms Wong is currently a financial advisor of Good Harbour Finance Limited. She began her career as a management consultant at McKinsey & Company in the United States in 1986. Ms Wong returned to Hong Kong and joined the Hutchison Whampoa group of companies in 1988, taking on various positions. She was managing director of Weatherite Manufacturing Limited, an air conditioning manufacturer. Later, Ms Wong became chief executive officer of Metro Broadcast Corporation Limited. Eventually, she became chief financial officer of Star TV, Asia's first satellite television company. After leaving the Hutchison Whampoa Group in 1992, she became group chief financial officer for the Pacific Century Group. After she resigned from the Pacific Century Group, she founded the Independent Schools Foundation in Hong Kong in 2000.

Ms Wong was educated in the United States at Stanford University where she received a Bachelor of Science degree. She holds a Master of Science degree from the Massachusetts Institute of Technology. Ms Wong was a member of the Central Policy Unit, the Government of the Hong Kong Special Administrative Region (think tank). She has served on many educational boards including the Canadian International School of Hong Kong, The Open University of Hong Kong and was a member of the Joint Committee on Student Finance of Student Financial Assistance Agency.

Bryce Wayne LEE
Independent Non-Executive Director

Mr Lee, aged 49, was appointed an Independent Non-Executive Director of PCCW in May 2012 and is a member of the Audit Committee and the Remuneration Committee of the Board.

Mr Lee is a partner of Silver Lake Kraftwerk, an investment strategy that provides growth capital in the energy and resource sectors. Previously, he was a managing director of Credit Suisse Group AG (Credit Suisse) in the Investment Banking division, serving as head of the Technology Group for the Americas and as co-head of the Alternative Energy Group. Mr Lee was instrumental in building Credit Suisse's investment banking franchises in Asia and in cleantech, and was named to Forbes magazine's "Midas List" of the top 100 technology dealmakers in the world. He was a member of Credit Suisse's Investment Banking Committee and served on the Managing Director Evaluation Committee. Mr Lee has led numerous transactions for industry leaders in the TMT (telecom, media and technology) and cleantech sectors in the United States and globally. Over his 19 years at Credit Suisse, Mr Lee has executed and advised on over US$88.7 billion capital markets and M&A advisory transactions globally for public and private TMT and cleantech companies. Mr Lee holds a Bachelor of Arts degree in Economics and Asian Languages from Stanford University.

Lars Eric Nils RODERT
Independent Non-Executive Director

Mr Rodert, aged 53, was appointed an Independent Non-Executive Director of PCCW in November 2012 and is a member of the Audit Committee of the Board.

Mr Rodert is a director of ÖstVāst Capital Management. He is a director of Brookfield Property Partners L.P.'s General Partner since April 2013 and he served as a director of Brookfield Infrastructure Partners L.P.'s Managing General Partner from December 2010 to April 2013. He was a Senior Portfolio Manager for Inter IKEA Treasury in North America and Europe. Prior to this role, he was most recently Chief Investment Officer, Global Equities, at SEB Asset Management and prior to that he was Head of North American Equities at the same firm. Based in Belgium, Mr Rodert has an in depth knowledge of continental European markets and is seasoned in analyzing investment opportunities. He holds a Bachelor of Arts degree from Stockholm University, with a major in finance.

David Christopher CHANCE
Independent Non-Executive Director

Mr Chance, aged 57, was appointed an Independent Non-Executive Director of PCCW and the Independent Non-Executive Chairman and Director of PCCW Media Limited, an indirect wholly-owned subsidiary of PCCW in November 2013.

Mr Chance is the Non-Executive Chairman of Modern Times Group MTG AB and the Non-Executive Chairman of Top Up TV Ltd. He is also a Non-Executive Director of Olswang LLP, an international law firm. He has significant senior management experience particularly in the area of pay television having been formerly the Executive Chairman of Top Up TV Ltd. between 2003 and 2011 and the Deputy Managing Director of British Sky Broadcasting Group plc between 1993 and 1998. He was also a Non-Executive Director of ITV plc and O2 plc. He graduated with a Bachelor of Arts degree, a Bachelor of Science degree and a Master of Business Administration degree from the University of North Carolina.

CORPORATE GOVERNANCE REPORT

PCCW Limited ("PCCW" or the "Company") is committed to 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 its 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 "Group").

The Corporate Responsibility Policy sets out standards for the way in which employees should conduct our 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 we should conduct our business to enhance its positive contribution to society and the environment.

CORPORATE STRATEGY

PCCW, in conjunction with its listed subsidiary HKT Limited ("HKT"), offers Hong Kong's only integrated quadruple-play service with market leading positions in the fixed-line, broadband Internet and pay-TV businesses, as well as a rapidly growing mobile business. PCCW also owns one of the leading IT solutions providers in Hong Kong and mainland China, as part of its core business. PCCW's strategy for generating and preserving shareholder value is to invest prudently in its technology and service platforms to ensure that its fixed-line business remains the market leader, its broadband offering delivers increasingly fast connectivity and its mobile network coverage and speed continuously improve – and overall to invest in our people to continuously improve the quality of service that PCCW provides to its customers. PCCW also invests prudently in innovative new technology and attractive content offerings for its highly successful now TV service and to develop the scale and capabilities of its IT solutions business. PCCW generates and preserves value by investing in these businesses and pursuing growth opportunities. Its strategy is to continue to develop the growth businesses (IT solutions and TV & new media) which are wholly-owned by PCCW and to maintain its majority ownership of HKT.

CORPORATE GOVERNANCE CODE

PCCW has applied the principles and complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended December 31, 2014.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted its own code of conduct regarding securities transactions, namely the PCCW Code of Conduct for Securities Transactions (the "PCCW Code"), which applies to all directors and employees of the Company on terms no less exacting than the required standard indicated 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.

Having made specific inquiries of all directors of the Company, confirmations have been received of compliance with the required standard set out in the Model Code and the PCCW Code during the accounting period covered by this annual report.

The directors' and chief executives' interests and short positions in shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations are disclosed in the Report of the Directors on pages 36 to 57 of this annual report.

BOARD OF DIRECTORS

The board of directors (the "Board") is responsible for the management of the Company. Key responsibilities of the Board include formulation of the overall strategies of the Group, the setting of management targets and supervision of management performance. The 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 Executive Committee under the leadership of the Chairman of PCCW:

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

The Chairman of PCCW is Li Tzar Kai, Richard and the Group Managing Director is BG Srinivas. The role of the Chairman is separate from that of the Group Managing Director. The Chairman is responsible for overseeing the function of the Board while the Group Managing Director is responsible for managing the Group's business. Details of the composition of the Board are set out in the Report of the Directors on pages 36 to 57 of this annual report.

All directors have full and timely access to all relevant information, including monthly updates from the management, regular reports from the various Board committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company as appropriate.

The directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the profit and cash flows of the Group 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, 2014, the directors 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 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 the Group. The statement of the external auditor of the Company relating to its reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on page 58 of this annual report.

As at the date of this report, the Board is comprised of 16 directors including four executive directors, six non-executive directors and six independent non-executive directors. At least one-third of the 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 are set out on pages 12 to 16 of this annual report. The relationships (including financial, business, family or other material or relevant relationships), if any, among members of the Board have also been disclosed in the Report of the Directors of this annual report.

The Company has arranged appropriate directors and officers liability insurance cover for its directors and officers.

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

The Board held six meetings in 2014. The annual general meeting of the Company was held on May 8, 2014 with the attendance of the external auditor to answer questions.

BOARD OF DIRECTORS *(CONTINUED)*

The attendance of individual directors at the Board, the Board committee meetings and the general meetings held in 2014 is set out in the following table:

Directors	Board	Meetings attended/eligible to attend in 2014 *(Note 1)* Audit Committee	Nomination Committee	Remuneration Committee	General Meetings *(Note 2)*
Executive Directors					
Li Tzar Kai, Richard *(Chairman of the Board)*	6/6	N/A	2/3	N/A	3/3
BG Srinivas *(Group Managing Director) (Note 3)*	2/2	N/A	N/A	N/A	N/A
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*	6/6	N/A	N/A	N/A	3/3
Lee Chi Hong, Robert	5/6	N/A	N/A	N/A	3/3
Chan Ching Cheong, George *(Note 4)*	4/4	N/A	N/A	N/A	3/3
Non-Executive Directors					
Sir David Ford	5/6	N/A	N/A	N/A	3/3
Tse Sze Wing, Edmund	6/6	N/A	N/A	N/A	2/3
Lu Yimin *(Deputy Chairman of the Board)*	5/6	N/A	N/A	N/A	2/3
Li Fushen	3/6 *(Note 7)*	N/A	3/3	N/A	3/3
Zhang Junan *(Note 5)*	1/1	N/A	N/A	N/A	N/A
Wei Zhe, David	6/6	N/A	N/A	2/2	3/3
Li Gang *(Note 6)*	0/5	N/A	N/A	0/2	0/3
Independent Non-Executive Directors					
Dr The Hon Sir David Li Kwok Po	6/6	N/A	2/3	2/2	3/3
Aman Mehta *(Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee)*	5/6	3/3	3/3	2/2	3/3
Frances Waikwun Wong	6/6	N/A	2/3	N/A	3/3
Bryce Wayne Lee	4/6	3/3	N/A	2/2	1/3
Lars Eric Nils Rodert	6/6	3/3	N/A	N/A	3/3
David Christopher Chance	6/6	N/A	N/A	N/A	3/3

Notes:

1. Directors may attend meetings in person, by phone or through other means of video conference or by their alternate directors in accordance with the Company's articles of association (the "Articles of Association").
2. In 2014, the Company held three general meetings, including the annual general meeting held on May 8, 2014 and the two extraordinary general meetings held on February 28, 2014 and May 8, 2014 respectively.
3. Appointed as the Group Managing Director and an Executive Director with effect from July 14, 2014.
4. Retired as the Group Managing Director and an Executive Director with effect from the end of July 13, 2014.
5. Appointed as a Non-Executive Director and a member of the Remuneration Committee with effect from August 6, 2014.
6. Resigned as a Non-Executive Director and a member of the Remuneration Committee with effect from August 6, 2014.
7. Attendance at two Board meetings was by an alternate director of Li Fushen appointed in accordance with the Articles of Association which was not counted as attendance by the director himself in accordance with the requirements of the CG Code.

BOARD OF DIRECTORS *(CONTINUED)*

The Company has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all six independent non-executive directors as at the date of this report, namely Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee, Lars Eric Nils Rodert and David Christopher Chance are still 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 Report of the Directors of this annual report.

According to the Articles of Association, any director so appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company (as the case may be) and shall be eligible for re-election at that meeting. In addition, at each annual general meeting of the Company no less than one-third of the directors for the time being shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Articles of Association, each non-executive director has a term of three years. Therefore, no director will remain in office for a term of more than three years. The directors who shall retire from office at the forthcoming annual general meeting of the Company are set out on page 37 of this annual report.

The Board has a structured process to evaluate the performance of all directors on an annual basis including a self-evaluation questionnaire which is completed by all directors and presented to the Audit Committee and Board meetings for discussion in order to review each director's performance of his/her responsibilities and his/her time commitment to the Company's affairs in accordance with the relevant requirements of the CG Code, and to identify areas for improvement. This process has confirmed that the performance of the directors and the time commitment in discharging their duties as directors of the Company for the year ended December 31, 2014 were generally satisfactory.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

As part of an ongoing process of director's training, the directors of the Company are updated on the latest developments in applicable legal and regulatory requirements, and the operations, organization and governance policies of the Company. They are provided with written materials from time to time to develop and refresh their knowledge and skills. The company secretary also organizes and arranges seminars on relevant topics which will count towards continuous professional development training. During the year, all directors of the Company, namely, Li Tzar Kai, Richard, BG Srinivas, Hui Hon Hing, Susanna, Lee Chi Hong, Robert, Sir David Ford, Tse Sze Wing, Edmund, Lu Yimin, Li Fushen, Zhang Junan, Wei Zhe, David, Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee, Lars Eric Nils Rodert, David Christopher Chance, Chan Ching Cheong, George and Li Gang, received updates on the Company's business and relevant rules and regulations. Additionally, the company secretary also organized training seminars presented by qualified professionals on legal and regulatory issues for the directors. The Company has received confirmation from all directors of their respective training records for the year ended December 31, 2014.

BOARD COMMITTEES

The Board has established the following committees with defined terms of reference. 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. The Audit Committee has been structured to only include independent non-executive directors, and the Nomination Committee and the Remuneration Committee have been structured to include a majority of independent non-executive directors.

Executive Committee and Sub-committees

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

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

The members of the Executive Committee during the year and up to the date of this annual report are:
Li Tzar Kai, Richard *(Chairman)*
BG Srinivas
(appointed with effect from August 6, 2014)
Hui Hon Hing, Susanna
Lee Chi Hong, Robert
Lu Yimin
Chan Ching Cheong, George
(ceased with effect from the end of July 13, 2014)

Reporting to the Executive Committee are sub-committees comprising executive directors and members of senior management who oversee all key operating and functional areas within the 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.

BOARD COMMITTEES *(CONTINUED)*

Executive Committee and Sub-committees *(continued)*

The *Operational Committee* is chaired by the Group Managing Director and meets from time to time to direct the business units/operations of PCCW Group companies.

The *Controls and Compliance Committee*, which reports to the Executive Committee, comprises senior members of PCCW's Group Finance, Group Legal Office and Corporate Secretariat, Group Communications, Group Internal Audit and Risk Management departments. The committee reviews procedures for the preparation of PCCW's annual and interim reports and corporate policies of the Group from time to time to ensure compliance with the various rules and obligations imposed on it as a company listed on The Stock Exchange of Hong Kong Limited.

The *Corporate Social Responsibility Committee*, which reports to the Executive Committee, comprises senior members of PCCW's Group Communications, Group Human Resources, Corporate Secretariat, Group Finance, Risk Management, Network Operations 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.

Remuneration Committee

The Remuneration Committee was formed in May 2003 with the primary objective of ensuring that PCCW 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 to shareholders.

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 determining, with delegated responsibility, the remuneration packages of individual executive directors and senior management of the Company and to make recommendations to the Board on the remuneration of non-executive directors. In addition, the committee provides effective supervision and administration of the Company's share option scheme(s), as well as other share incentive schemes. The committee's authority and duties are set out in written terms of reference that are posted on the Company's website at www.pccw.com/ir and the website of Hong Kong Exchanges and Clearing Limited (the "HKEx") at www.hkexnews.hk. This committee comprises five members, including three independent non-executive directors and two non-executive directors, and is chaired by an independent non-executive director.

The members of the Remuneration Committee during the year and up to the date of this annual report are:

Aman Mehta *(Chairman)*
Dr The Hon Sir David Li Kwok Po
Wei Zhe, David
Zhang Junan
(appointed with effect from August 6, 2014)
Bryce Wayne Lee
Li Gang
(resigned with effect from August 6, 2014)

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 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:

- 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.

The Remuneration Committee met two times in 2014. The attendance of individual directors at the committee meetings is set out on page 19 of this annual report.

BOARD COMMITTEES *(CONTINUED)*

Remuneration Committee *(continued)*

The work performed by the Remuneration Committee during 2014 included:

(i) review and approval of the 2013 bonus payment to executive directors and senior management;

(ii) review and approval of the 2014 performance bonus scheme for executive directors and senior management and key performance indicators;

(iii) review and recommendation of the non-executive directors' fees for 2014 to the Board for approval;

(iv) review of the termination of existing share option scheme and adoption of new share option scheme, with a recommendation to the Board subject to shareholders' approval;

(v) review of the terms of reference of the Remuneration Committee;

(vi) review and approval of share awards made pursuant to the Company's share award schemes;

(vii) review and approval of the remuneration packages of executive directors; and

(viii) consideration and approval of the key terms of employment of the Group Managing Director.

Emoluments of directors of the Company for 2014 have been reviewed by the Remuneration Committee at its meeting held on February 11, 2015.

Details of emoluments of each director and senior executives are set out in the Consolidated Financial Statements on pages 96 to 98 of this annual report.

Nomination Committee

The Nomination Committee was formed in May 2003 to make recommendations to the Board on the appointment and re-appointment of directors, structure, size and composition of the Board to ensure fair and transparent procedures for the appointment and re-appointment of directors to the Board and to maintain a balance of skills, experience and diversity of perspectives on the Board which are appropriate to the requirements of the Company's business. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

The Board adopted a board diversity policy (the "Board Diversity Policy") with the primary objective of enhancing the effectiveness of the Board and its corporate governance standard. The Company recognizes the importance of having a diverse team of Board members, which is an essential element in maintaining a competitive advantage. The Nomination Committee has been delegated the authority to review and assess the diversity of the Board and its skills and experience by way of consideration of a number of factors including but not limited to, gender, age, cultural and educational background, and professional experience. The committee will give consideration to the Board Diversity Policy when identifying and selecting suitably qualified candidates. The Board Diversity Policy will be reviewed on a regular basis.

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:
Aman Mehta *(Chairman)*
Dr The Hon Sir David Li Kwok Po
Li Tzar Kai, Richard
Li Fushen
Frances Waikwun Wong

The Nomination Committee met three times in 2014. The attendance of individual directors at the committee meetings is set out on page 19 of this annual report.

The work performed by the Nomination Committee during 2014 included:

(i) review and assessment of the independence of all independent non-executive directors;

(ii) consideration and recommendation to the Board for approval the list of retiring directors for re-election at the 2014 annual general meeting;

(iii) annual review of the structure, size and composition of the Board, with a recommendation to the Board for approval;

(iv) review of the terms of reference of the Nomination Committee; and

(v) recommendation to the Board for approval the appointments of BG Srinivas as the Group Managing Director and Executive Director of the Company and Zhang Junan as the Non-Executive Director of the Company after consideration of a range of diversity perspectives.

BOARD COMMITTEES *(CONTINUED)*

Nomination Committee *(continued)*

At its meeting held on February 11, 2015, the Nomination Committee reviewed the structure, size and composition of the Board and formed the view that the Board has a balance of skills, knowledge, experience, expertise and diversity of perspectives appropriate to the business requirements of the Company for the year ended December 31, 2014.

Audit Committee

The Audit Committee of the Board is responsible for ensuring objectivity and credibility of financial reporting, and that the directors have exercised the care, diligence and skills prescribed by law when presenting results to shareholders. The Audit Committee is also responsible for ensuring an effective system of internal controls of the Company is in place and ensuring good corporate governance standards and practices are maintained. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

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

At its meeting held on February 11, 2015, the Audit Committee recommended to the Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2015 at the forthcoming annual general meeting.

The Audit Committee comprises three members, each of them is an independent non-executive director.

The members of the Audit Committee are:
Aman Mehta *(Chairman)*
Bryce Wayne Lee
Lars Eric Nils Rodert

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. During 2014, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 19 of this annual report.

The work performed by the Audit Committee during 2014 included:

(i) review of the terms of reference of the Audit Committee;

(ii) review of the annual report and the annual results announcement for the year ended December 31, 2013, with a recommendation to the Board for approval;

(iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Audit Committee and the management representation letter for the year ended December 31, 2013, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2014 annual general meeting;

(iv) review of the annual report on effectiveness of internal controls under the CG Code, with a recommendation to the Board for approval;

(v) review and approval of continuing connected transactions (including PricewaterhouseCoopers' report on their review of continuing connected transactions) for the year ended December 31, 2013;

(vi) consideration and approval of the Group Internal Audit reports (including the internal audit workplan);

(vii) review of the interim report and the interim results announcement for the six months ended June 30, 2014, with a recommendation to the Board for approval;

(viii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Audit Committee and the management representation letter for the six months ended June 30, 2014;

(ix) review and approval of the audit strategy memorandum for the year ending December 31, 2014;

(x) review of the PCCW Code, with a recommendation to the Board for approval the proposed amendments;

(xi) review and approval of PricewaterhouseCoopers' pre-year end report for the Audit Committee;

(xii) review and approval of the audit engagement letters for the year ending December 31, 2014;

(xiii) consideration and approval of the 2014 audit and non-audit services and pre-approval of the 2015 annual budget for audit and non-audit services;

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

(xiv) review of the corporate governance report and practices for the year ended December 31, 2013 and the corporate governance disclosure for the six months ended June 30, 2014, with a recommendation to the Board for approval;

(xv) review of the results of the directors' self-evaluation exercise for the year ended December 31, 2013 in order to review each director's performance of his/her responsibilities and his/her time commitment to the Company's affairs and to identify areas for improvement, with a recommendation to the Board for approval;

(xvi) review and monitoring of training and continuous professional development for directors and senior management; and

(xvii) review of the annual caps in respect of the continuing connected transactions with the China Unicom Group for the next three financial years ending December 31, 2017, with a recommendation to the Board for approval.

Subsequent to the year end, the Audit Committee reviewed the annual report and the annual results announcement for the year ended December 31, 2014, with a recommendation to the Board for approval.

For the year ended December 31, 2014, fees paid and payable to the auditors of the Group amounted to approximately HK$30 million for audit services (2013: HK$29 million) and HK$33 million for non-audit services (2013: HK$15 million). The non-audit services included the following:

Nature of services	HK$ million
Tax services	6
Other services	27
	33

Regulatory Compliance Committee

The Regulatory Compliance Committee comprises three members, including two independent non-executive directors and one non-executive director. It reviews and monitors dealings of the Group with the Hutchison Whampoa Group, the Cheung Kong Group and the Hong Kong Economic Journal Company Limited ("HKEJ") to ensure that all dealings with these entities are conducted on an arm's-length basis. The Regulatory Compliance Committee is chaired by an independent non-executive director. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

The members of the Regulatory Compliance Committee are:
Frances Waikwun Wong *(Chairwoman)*
Tse Sze Wing, Edmund
Dr The Hon Sir David Li Kwok Po

REGULATORY COMPLIANCE COMMITTEE OF PCCW MEDIA LIMITED

The Regulatory Compliance Committee of PCCW Media Limited ("PCCW Media") comprises the same members as the PCCW Regulatory Compliance Committee. It reviews and monitors dealings of PCCW Media with the Hutchison Whampoa Group, the Cheung Kong Group and HKEJ to ensure that all dealings with these entities are conducted on an arm's-length basis. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

INTERNAL CONTROLS

The directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function. 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 Group's performance are appropriately identified and managed. 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.

INTERNAL CONTROLS *(CONTINUED)*

The directors, through the Audit Committee and other committees of the Board (as the case may be), are kept regularly apprised of significant risks that may impact on the Group's performance. The Audit Committee has, at each regularly scheduled meeting throughout the year, received a report from Group Internal Audit on 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 PCCW Group companies and makes recommendations to the Audit Committee and other committees (as the case may be) from time to time, including amongst other things, the appropriate mitigation and/or transfer of identified risk.

The Audit Committee of the Company has established and oversees a whistleblower policy and a set of 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 Chairman of the Audit Committee has designated the Head of Group Internal Audit 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.

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 Board and executive management on the adequacy and effectiveness of internal controls for the Group. 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 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 Audit Committee and key members of executive and senior management of the Company. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee and executive and senior management of the Company (as the case may be) periodically.

Prior to the delisting of the Company's American Depositary Shares from the New York Stock Exchange, Inc., which became effective on May 18, 2007, the Company adopted policies and procedures to comply with the stringent requirements of the Sarbanes-Oxley Act ("SOA") of the United States. A key requirement of the SOA was to ensure the effectiveness of internal controls and financial reporting by requiring extensive detailed testing of its internal controls, as well as annual certification as to these matters by the management of the Company. Following the delisting, the Company has not changed its policies and procedures materially and believes that this will enhance the Company's corporate governance and business practices in the future.

During 2014, Group Internal Audit conducted selective reviews of the effectiveness of the Group's system of internal controls over financial, operational, compliance controls and risk management functions with emphasis on information technology, data privacy, systems contingency planning and procurement. Additionally, heads of major business and corporate functions 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, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Company's financial position or results of operations and considered the internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function.

In addition to the review of internal controls undertaken within the Company, from time to time, management and/or the directors will engage professional third parties to assess and comment on the adequacy of the system of internal controls and, where appropriate, recommendations will be adopted and enhancements to the internal controls will be made.

INTERNAL CONTROLS *(CONTINUED)*

Further information on internal controls adopted and implemented by the Group is available under the "Corporate Governance" section on the Company's website.

COMPANY SECRETARY

Ms Philana WY Poon was re-appointed as the Group Company Secretary of the Company with effect from August 11, 2012, and was previously the Company Secretary of the Company from 2007 to November 2011. She is also the Group General Counsel and Company Secretary of the HKT Trust and HKT Limited.

During the year ended December 31, 2014, Ms Poon has received no less than 15 hours of relevant professional training to refresh her skills and knowledge.

SHAREHOLDERS' RIGHTS

Procedures to convene an extraordinary general meeting and put forward proposals at general meetings of the Company

Shareholder(s) of the Company holding not less than one-twentieth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company may, in accordance with the requirements and procedures as provided by the Companies Ordinance, request the Board to convene an extraordinary general meeting pursuant to Article 65 of the Articles of Association. The objects of the meeting must be stated in the related requisition which must be signed by the requisitionist(s) and deposited at the registered office of the Company for the attention of the Group Company Secretary.

Shareholders can also refer to the detailed requirements and procedures as set forth in the relevant sections of the Companies Ordinance and the Articles of Association when making any requisitions or proposals for transaction at the general meetings of the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send enquiries to the Board in writing c/o the Corporate Secretariat with the following contact details:

Attention:	Group Company Secretary
Address:	41st Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
Fax:	+852 2962 5725
Email:	co.sec@pccw.com

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company is committed to promoting and maintaining effective communication with the shareholders (both individual and institutional) and other stakeholders. A Shareholders Communication Policy has been adopted for ensuring the Company provides the shareholders and the investment community with appropriate and timely information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to allow the investment community to engage actively with the Company. The Shareholders Communication Policy is available on the Company's website (www.pccw.com/ir).

The Company encourages two-way communications with institutional and retail investors, as well as financial and industry analysts. Extensive information on the Company's activities is provided in the annual and interim reports and circulars which are sent to the shareholders and are also available on the websites of the Company and the HKEx.

In addition to dispatching this annual report to the shareholders, financial and other information relating to the Group and its business activities is 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 shareholdings and the business of the Company are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 184 of this annual report and also provided in the Shareholders Communication Policy.

Shareholders are encouraged to attend the forthcoming annual general meeting of the Company for which at least 20 clear business days' notice is given. At the meeting, directors will be available to answer questions on the Group's business and external auditor will be available to answer questions about the conduct of the audit, the preparation and content of the auditor's reports, the accounting policies and the auditor independence.

CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2014, there were no changes to the constitutional documents of the Company. An up to date consolidated version of the Memorandum and Articles of Association of the Company is available on the websites of the Company and the HKEx.

In order to bring the Articles of Association in line with the new Companies Ordinance (Chapter 622 of the laws of Hong Kong) which came into effect in March 2014, the Board proposes to adopt a new set of Articles of Association (the "Proposed Adoption"). The Proposed Adoption is subject to the approval of the shareholders of the Company by way of special resolution at the forthcoming annual general meeting.

On behalf of the Board

Philana WY Poon
Group Company Secretary
Hong Kong, February 11, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Core revenue increased by 24% to HK$32,962 million; consolidated revenue (including PCPD) increased by 22% to HK$33,277 million
- Core EBITDA increased by 29% to HK$10,506 million; consolidated EBITDA (including PCPD) increased by 29% to HK$10,340 million
- Consolidated profit attributable to equity holders of the Company increased by 76% to HK$3,310 million; basic earnings per share amounted to 45.14 HK cents
- Final dividend of 13.21 HK cents per ordinary share

MANAGEMENT REVIEW

We are pleased to announce a set of solid financial results by PCCW for the year ended December 31, 2014, which was attributable to the satisfactory operational and financial performance of its core businesses.

Core revenue for the year ended December 31, 2014 increased by 24% to HK$32,962 million. Core EBITDA increased by 29% to HK$10,506 million given a strong contribution from HKT and continued growth of the Solutions business.

Including PCPD, consolidated revenue for the year ended December 31, 2014 increased by 22% to HK$33,277 million and consolidated EBITDA increased by 29% to HK$10,340 million. After taking into account a gain after tax and non-controlling interests of HK$1,306 million on the disposal of the entire interest in Pacific Century Place, Beijing by PCPD, consolidated profit attributable to equity holders of the Company increased by 76% to HK$3,310 million. Basic earnings per share were 45.14 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 13.21 HK cents per ordinary share for the year ended December 31, 2014.

OUTLOOK

The Media group has been making good progress in its transformation into a leading digital media and entertainment company through development of its regional and international content distribution and over-the-top ("OTT") service in Hong Kong. The team will also ensure that now TV being the market leader by far continues to offer customers the best viewing experience with quality production.

The Solutions business looks forward to further expansion both in terms of competencies and geographical reach into the U.S. and European markets in the coming year. We will augment our global capabilities in the digital ecosystem in order to become the digital partner of choice.

HKT's acquisition of CSL New World Mobility Limited (now known as CSL Holdings Limited, "CSL") has firmly established itself as the leading telecom service provider in Hong Kong in not only fixed line and broadband, but also mobile communications. We expect that more significant synergies can be realized in the coming periods and HKT's business propositions further strengthened by its offerings of integrated and value-added services such as fixed-mobile integration solutions.

The global economy continues to face uncertainties in the new year while local economic growth has slowed down. In view of 2015 looking set to be a year of both challenges and opportunities, the management team will steadfastly execute its strategies to further grow our businesses while closely monitoring the external environment.

PCCW's vision is to become a global leader in the increasingly digital world. Given our excellent local and global connectivity, strong media content production and delivery platform, and first-class IT capability, the management team believes that we can further build on our strengths to drive digital lifestyle and experience to its fullest.

Note: Core revenue refers to consolidated revenue excluding Pacific Century Premium Developments Limited ("PCPD"), the Group's property development and investment business; core EBITDA refers to consolidated EBITDA excluding PCPD.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2013 H1	2013 H2	2013 Full Year	**2014 H1**	**2014 H2**	**2014 Full Year**	Better/ (Worse) y-o-y
Revenue							
HKT	11,071	11,761	22,832	**12,520**	**16,303**	**28,823**	26%
Media Business	1,299	1,721	3,020	**1,487**	**1,744**	**3,231**	7%
Solutions Business	1,393	1,568	2,961	**1,459**	**1,911**	**3,370**	14%
Other Businesses	28	30	58	**18**	**26**	**44**	(24)%
Eliminations	(976)	(1,252)	(2,228)	**(1,044)**	**(1,462)**	**(2,506)**	(12)%
Core revenue	12,815	13,828	26,643	**14,440**	**18,522**	**32,962**	24%
PCPD	499	175	674	**224**	**91**	**315**	(53)%
Consolidated revenue	13,314	14,003	27,317	**14,664**	**18,613**	**33,277**	22%
Cost of sales	(6,343)	(6,768)	(13,111)	**(6,782)**	**(8,369)**	**(15,151)**	(16)%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(3,025)	(3,148)	(6,173)	**(3,506)**	**(4,280)**	**(7,786)**	(26)%
EBITDA[1]							
HKT	3,839	4,062	7,901	**4,425**	**5,817**	**10,242**	30%
Media Business	223	285	508	**180**	**272**	**452**	(11)%
Solutions Business	217	303	520	**232**	**390**	**622**	20%
Other Businesses	(268)	(286)	(554)	**(301)**	**(329)**	**(630)**	(14)%
Eliminations	(75)	(171)	(246)	**(79)**	**(101)**	**(180)**	27%
Core EBITDA[1]	3,936	4,193	8,129	**4,457**	**6,049**	**10,506**	29%
PCPD	10	(106)	(96)	**(81)**	**(85)**	**(166)**	(73)%
Consolidated EBITDA[1]	3,946	4,087	8,033	**4,376**	**5,964**	**10,340**	29%
Core EBITDA*[1] *Margin	*31%*	*30%*	*31%*	***31%***	***33%***	***32%***	
Consolidated EBITDA*[1] *Margin	*30%*	*29%*	*29%*	***30%***	***32%***	***31%***	
Depreciation and amortization	(2,266)	(2,305)	(4,571)	**(2,517)**	**(3,786)**	**(6,303)**	(38)%
Gain/(Loss) on disposal of property, plant and equipment, net	5	4	9	**(2)**	**–**	**(2)**	NA
Other gains, net	196	489	685	**688**	**2,029**	**2,717**	297%
Interest income	37	43	80	**45**	**45**	**90**	13%
Finance costs	(595)	(516)	(1,111)	**(573)**	**(845)**	**(1,418)**	(28)%
Share of results of associates and joint ventures	32	108	140	**9**	**41**	**50**	(64)%
Profit before income tax	1,355	1,910	3,265	**2,026**	**3,448**	**5,474**	68%

Note 1 *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, interests in leasehold land and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures. 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 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 2 *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 and short-term deposits.*

Note 3 *Group capital expenditure includes additions to property, plant and equipment and interests in leasehold land.*

HKT

For the year ended December 31, HK$ million	2013 H1	2013 H2	2013 Full Year	**2014 H1**	**2014 H2**	**2014 Full Year**	Better/ (Worse) y-o-y
HKT Revenue	11,071	11,761	22,832	**12,520**	**16,303**	**28,823**	26%
HKT EBITDA[1]	3,839	4,062	7,901	**4,425**	**5,817**	**10,242**	30%
HKT EBITDA[1] margin	*35%*	*35%*	*35%*	***35%***	***36%***	***36%***	
HKT Adjusted Funds Flow	1,484	1,417	2,901	**1,590**	**1,764**	**3,354**	16%

HKT reported another set of strong financial results for the year ended December 31, 2014, which was characterized by satisfactory performance of its various lines of business and also significantly the consolidation of the results of CSL since the completion of the acquisition in May 2014.

Total revenue for the year ended December 31, 2014 increased by 26% to HK$28,823 million and total EBITDA for the year was HK$10,242 million, an increase of 30% over the previous year. Adjusted funds flow for the year ended December 31, 2014 reached HK$3,354 million, an increase of 16% over the previous year.

HKT recommended the payment of a final distribution of 23.30 HK cents per Share Stapled Unit for the year ended December 31, 2014. This brings the 2014 full-year distribution to 44.30 HK cents per Share Stapled Unit, representing the complete payout of the adjusted funds flow per Share Stapled Unit. The 2014 full-year distribution is based on the enlarged Share Stapled Units in issue after the HKT's rights issue completed in July 2014.

For a more detailed review of the performance of HKT, please refer to its 2014 annual results announcement released on February 10, 2015.

Media Business

For the year ended December 31, HK$ million	2013 H1	2013 H2	2013 Full Year	**2014 H1**	**2014 H2**	**2014 Full Year**	Better/ (Worse) y-o-y
Media Business Revenue	1,299	1,721	3,020	**1,487**	**1,744**	**3,231**	7%
Media Business EBITDA[1]	223	285	508	**180**	**272**	**452**	(11)%
Media Business EBITDA[1] margin	*17%*	*17%*	*17%*	***12%***	***16%***	***14%***	

Revenue for the Media business for the year ended December 31, 2014 increased by 7% to HK$3,231 million from HK$3,020 million a year earlier, mainly due to improvements in subscription and advertising revenues.

The growth in subscription revenue at now TV reflected the full-year benefit of customer take-up of the Super Sports Pack which includes the exclusive broadcast of the Barclays Premier League ("BPL"). Take-up of the Super Sports Pack was further boosted by the availability of the 2014 FIFA World Cup Brazil via now TV's distribution agreement with TVB Network Vision.

The total installed now TV subscriber base reached 1,285,000 by the end of December 2014, representing a net gain of 48,000 subscribers or an increase of 4% from 12 months ago. More importantly, now TV's exit average revenue per user ("ARPU") continued to increase, rising 4% year-on-year from HK$187 to HK$195 per month.

EBITDA for the year was HK$452 million as compared to HK$508 million a year earlier, reflecting the full-year impact of the costs associated with BPL and investments made for new initiatives including upgraded MOOV platform, expansion of now player and preparation for the free TV business.

In December 2014, the Government granted renewal of the Group's pay-TV license for another 12 years commencing September 2015. Having further consolidated its pay-TV leadership in Hong Kong, the Media business has been actively developing its regional and international content distribution activities and rapidly expanding its OTT offerings in Hong Kong.

Solutions Business

For the year ended December 31, HK$ million	2013 H1	2013 H2	2013 Full Year	**2014 H1**	**2014 H2**	**2014 Full Year**	Better/ (Worse) y-o-y
Solutions Business Revenue	1,393	1,568	2,961	**1,459**	**1,911**	**3,370**	14%
Solutions Business EBITDA[1]	217	303	520	**232**	**390**	**622**	20%
Solutions Business EBITDA**[1] **margin	*16%*	*19%*	*18%*	***16%***	***20%***	***18%***	

Revenue for the Solutions business for the year ended December 31, 2014 increased by 14% to HK$3,370 million from HK$2,961 million a year ago. The growth was achieved through a solid recurring revenue base and strong growth in project based revenue driven by the successful execution of projects. The results for the Solutions business also reflected the full-year consolidation of Compass Solutions Holdings Limited which was acquired in May 2013.

To capitalize on the increasing data center needs from both the corporate and public sectors, a world-class data center in Kwai Chung with a total of gross floor area of 202,000 sq.ft. has been opened in phases since the first half of 2014. As at December 31, 2014, the overall occupancy rate of our data center facilities remained high at 85%.

EBITDA for the year increased by 20% to HK$622 million from HK$520 million a year ago, with the margin maintained at 18%.

As at December 31, 2014, the Solutions business had secured orders with a value of HK$5,693 million.

PCPD

PCPD recorded total revenue of HK$315 million and negative EBITDA of HK$166 million for the year ended December 31, 2014, compared with total revenue of HK$674 million and negative EBITDA of HK$96 million a year earlier. For the year under review, PCPD's consolidated net profit increased to HK$1,491 million, after taking into account a gain after tax of HK$1,390 million on the disposal of its entire interest in Pacific Century Place, Beijing, during the year for a final consideration of US$939 million (approximately HK$7,281 million).

PCPD's development of a Grade A office building in the central business district of Jakarta, Indonesia continued to make encouraging progress and is expected to become fully operational in 2017. The resort projects in Hokkaido, Japan, and Phang-nga, Thailand, also proceeded in accordance with their respective schedules.

For more information about the performance of PCPD, please refer to its 2014 annual results announcement released on February 10, 2015.

Other Businesses

Other Businesses primarily comprised the wireless broadband business in the United Kingdom and corporate support functions. Revenue from Other Businesses was HK$44 million for the year ended December 31, 2014 (2013: HK$58 million), while the cost of the Group's Other Businesses was HK$630 million in 2014 (2013: HK$554 million) partly because of the marketing campaign to launch the wireless broadband service in Central London.

Eliminations

Eliminations for the year ended December 31, 2014 were HK$2,506 million (2013: HK$2,228 million). Eliminations mainly represented eliminations of intra-group sale and transfer of rights to use certain equipment and assets in the ordinary course of business on an arm's length basis.

COSTS

Cost of Sales

For the year ended December 31, HK$ million	2013 H1	2013 H2	2013 Full Year	**2014 H1**	**2014 H2**	**2014 Full Year**	Better/ (Worse) y-o-y
The Group (excluding PCPD)	6,073	6,722	12,795	**6,730**	**8,340**	**15,070**	(18)%
PCPD	270	46	316	**52**	**29**	**81**	74%
Group Total	6,343	6,768	13,111	**6,782**	**8,369**	**15,151**	(16)%

The Group's consolidated total cost of sales for the year ended December 31, 2014 increased by 16% to HK$15,151 million. This comprised an 18% increase in cost of sales for the core business which was in line with the increase in core revenue and lower cost of sales for PCPD.

General and Administrative Expenses

During the year, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, increased by 26% to HK$7,786 million largely due to the CSL acquisition by HKT. Other contributing factors included inflationary pressure on staff costs and rental expenses.

Depreciation and amortization expenses increased by 38% to HK$6,303 million, driven by a 45% increase in depreciation expenses and a 30% increase in amortization expenses due to the continuous investments in capital expenditures and customer acquisition costs for the core businesses.

As a result, general and administrative expenses increased by 31% to HK$14,091 million for the year ended December 31, 2014.

EBITDA[1]

Benefiting from the robust performance of HKT's business, core EBITDA for the year ended December 31, 2014 increased by 29% to HK$10,506 million representing an improved margin of 32%. Consolidated EBITDA increased by 29% to HK$10,340 million for the year representing an improved margin of 31%.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2014 increased to HK$90 million due to a higher average cash balance during the year. Finance costs increased by 28% to HK$1,418 million which was attributable to the increase in borrowings as a result of the CSL acquisition by HKT. The CSL acquisition was initially financed by a bridge loan which was subsequently refinanced with longer term banking facilities and completion of a rights issue in July 2014.

Income Tax

Income tax expenses for the year ended December 31, 2014 was HK$803 million, as compared to HK$210 million a year ago, representing an effective tax rate of 14.7% for the year. The increase in the tax expenses is mainly due to the provision of overseas tax from the disposition of certain overseas subsidiaries, prior year's recognition of deferred income tax assets resulting from certain loss-making companies turning profitable, and increase in taxable profit due to the acquisition of mobile group companies.

Non-controlling Interests

Non-controlling interests increased by 16% to HK$1,361 million for the year ended December 31, 2014, which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2014 increased by 76% to HK$3,310 million (2013: HK$1,885 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholder return and a sound capital position. Adjustments are made, when necessary, to maintain an optimal capital structure in light of changes in economic conditions and to reduce the cost of capital.

The Group's gross debt[2] increased to HK$41,957 million as at December 31, 2014 (December 31, 2013: HK$30,056 million), which was a reflection of the additional borrowings raised for the CSL acquisition. Cash and cash equivalents increased to HK$7,943 million as at December 31, 2014 (December 31, 2013: HK$5,509 million). Net debt[2], therefore, increased to HK$34,014 million as at December 31, 2014 (December 31, 2013: HK$24,537 million). In January 2015, HKT took advantage of the favorable interest rate environment to raise US$300 million by issuing 15-year, zero coupon guaranteed notes for general corporate purposes including debt refinancing, and extended the debt maturity profile to 2030.

As at December 31, 2014, the Group had a total of HK$39,564 million in committed bank loan facilities available for liquidity management, of which HK$11,647 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$29,377 million, of which HK$4,230 million remained undrawn.

The Group's gross debt[2] to total assets was 57% as at December 31, 2014 (December 31, 2013: 56%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2014, Hong Kong Telecommunications (HKT) Limited, an indirect non-wholly owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service ("Moody's") (Baa2) and Standard & Poor's Ratings Services ("S&P's") (BBB). Following the completion of the rights issue by the HKT Trust and HKT Limited and the use of proceeds to reduce debt, Moody's and S&P's revised the rating outlook on Hong Kong Telecommunications (HKT) Limited from negative to stable in July and August 2014 respectively.

CAPITAL EXPENDITURE[3]

Group capital expenditure for the year ended December 31, 2014 was HK$3,222 million (2013: HK$2,607 million), of which HKT accounted for about 78% in 2014 (2013: 78%). Major outlays for the year were mainly in network expansion and enhancement to meet demand for high-speed broadband fiber services, mobile services and international networks, while the remainder was mainly used to expand the data center capacity of the Solutions business and upgrade the broadcasting equipment for the Media business.

The Group will continue to invest in its delivery platform 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 exposure 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 Group 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 Group's policies and guidelines, which are reviewed on a regular basis.

More than three quarters of the Group's consolidated revenue and costs are denominated in Hong Kong dollars. For those operations with revenues denominated in foreign currencies, the related costs and expenses are usually denominated in the same foreign currencies and hence provide a natural hedge against each other. Therefore, the Group is not exposed to significant foreign currency fluctuation risk from operations.

As for financing, a significant portion of the Group's debt is denominated in United States dollars. Accordingly, the Group has entered into swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2014, all cross currency interest rate swap contracts were designated as cash flow hedges and/or fair value hedges for the Group's foreign currency denominated short-term and long-term borrowings.

As a result, the Group's operational and financial risks are considered minimal.

CHARGE ON ASSETS

As at December 31, 2014, certain assets of the Group with an aggregate carrying value of HK$2,050 million (2013: HK$6,657 million) and performance guarantee of approximately HK$166 million in relation to the construction of office building in Jakarta, Indonesia were pledged to secure loans and bank loan facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2013	**2014**
Performance guarantees	399	**2,338**
Others	99	**151**
	498	**2,489**

The Group is subject to certain corporate guarantee obligations to guarantee performance of its 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 Group.

HUMAN RESOURCES

After the successful integration of CSL staff in May 2014, the Group had approximately 23,500 employees as at December 31, 2014 (2013: 22,200). About 60% of these employees work in Hong Kong and the others are based mainly in mainland China 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

The Board has recommended the payment of a final dividend of 13.21 HK cents (2013: 13.85 HK cents) per ordinary share for the year ended December 31, 2014 to shareholders whose names appear on the register of members of the Company on Thursday, May 14, 2015, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Thursday, May 7, 2015 ("AGM"). An interim dividend of 6.99 HK cents (2013: 6.35 HK cents) per ordinary share for the six months ended June 30, 2014 was paid by the Company in October 2014.

The final dividend will be payable in cash with an option to eligible shareholders to participate in a scrip dividend alternative (the "2014 Final Scrip Dividend Scheme"). The 2014 Final Scrip Dividend Scheme is conditional upon (a) shareholders' approval of the final dividend at the AGM; and (b) The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the 2014 Final Scrip Dividend Scheme. Full details of the 2014 Final Scrip Dividend Scheme will be set out in a circular proposed to be despatched to shareholders on or around Thursday, May 21, 2015.

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REPORT OF THE DIRECTORS

The board of directors (the "Board") presents its annual report together with the audited consolidated financial statements of PCCW Limited ("PCCW" or the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2014.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily in the Hong Kong Special Administrative Region ("Hong Kong"), and also in mainland China and other parts of the world; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in Asia.

Details of segment information are set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2014 are set out in the accompanying consolidated financial statements on page 59.

An interim dividend of 6.99 HK cents per ordinary share (2013: 6.35 HK cents per ordinary share), totaling approximately HK$517 million, was paid to shareholders of the Company in October 2014.

The Board has recommended the payment of a final dividend of 13.21 HK cents per ordinary share (2013: 13.85 HK cents per ordinary share) for the year ended December 31, 2014 subject to the approval of shareholders of the Company at the forthcoming annual general meeting. The final dividend will be payable in cash and the Board has also proposed to offer eligible shareholders the option to participate in a scrip dividend alternative.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 182.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Particulars of the Company's principal subsidiaries, associates and joint ventures are set out in notes 21 to 23 to the consolidated financial statements.

FIXED ASSETS

Details of movements in the Group's property, plant and equipment, investment properties and interests in leasehold land during the year are set out in notes 15 to 17 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's and the Company's borrowings are set out in notes 25(f) and 26 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 32 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2014, 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 who held office during the year and up to the date of this report are:

Executive Directors

Li Tzar Kai, Richard *(Chairman)*	
Srinivas Bangalore Gangaiah (aka BG Srinivas) *(Group Managing Director)*	(appointed with effect from July 14, 2014)
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*	
Lee Chi Hong, Robert	
Chan Ching Cheong, George *(Group Managing Director)*	(retired with effect from the end of July 13, 2014)

Non-Executive Directors

Sir David Ford, KBE, LVO	
Tse Sze Wing, Edmund, GBS	
Lu Yimin *(Deputy Chairman)*	
Li Fushen	
Zhang Junan	(appointed on August 6, 2014)
Wei Zhe, David	
Li Gang	(resigned on August 6, 2014)

Independent Non-Executive Directors

Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP
Aman Mehta
Frances Waikwun Wong
Bryce Wayne Lee
Lars Eric Nils Rodert
David Christopher Chance

In accordance with Article 92 of the Company's articles of association, BG Srinivas and Zhang Junan shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101A of the Company's articles of association, Sir David Ford, Lu Yimin, Frances Waikwun Wong and Bryce Wayne Lee shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors an annual confirmation of his/her 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 considers that all six independent non-executive directors as at the date of this report, namely, Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee, Lars Eric Nils Rodert and David Christopher Chance are still independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

With respect to Aman Mehta, on February 15, 2013, Pacific Century Regional Developments Limited ("PCRD", a substantial shareholder of the Company) announced the execution of a term sheet between PCRD Services Pte Ltd ("PCRD Services", a wholly-owned subsidiary of PCRD) and, amongst the others, KSH Distriparks Private Limited ("KSH"), Pasha Ventures Private Limited ("Pasha Ventures"), Aman Mehta (an independent non-executive director of the Company) and Akash Mehta (the adult son of Aman Mehta) (together, the "Mehta Family") and Sky Advance Associates Limited ("Sky Advance", a company owned by Akash Mehta) in relation to a proposed restructuring (the "Proposed Restructuring") of their respective interests in Pasha Ventures and KSH by way of a scheme of amalgamation. As of March 11, 2012, PCRD Services, Aman Mehta and Akash Mehta held 74%, 21% and 5% of the paid up issued equity capital of Pasha Ventures respectively. KSH is an Indian private limited logistics company with an inland container depot located in Pune, India and owned at that time as to 25.94% and 5.19% respectively by PCRD Services and Sky Advance. As a result of the Proposed Restructuring, Pasha Ventures was amalgamated with KSH and Pasha Ventures ceased to be a subsidiary of PCRD and was dissolved in June 2013. As a result, the shareholdings of PCRD Services, Sky Advance and the Mehta Family in KSH are now approximately 49.87%, 2.61% and 12.94% respectively. Aman Mehta is a passive investor in KSH and does not hold any directorship in KSH. Save as disclosed above, Aman Mehta is not in any way connected to PCRD, PCRD Services or PCCW.

Notwithstanding Aman Mehta's investment in KSH, the Company is of the view that Aman Mehta's continued independence in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules is not affected by this investment for the following reasons: (i) Aman Mehta's investment in KSH is a purely passive personal investment; he is not a director of KSH nor has he any involvement or participation in the daily operations and management of KSH; (ii) the business of KSH does not overlap or conflict with the businesses of the Company; and (iii) save as disclosed above, neither Aman Mehta nor Akash Mehta hold any interest, direct or indirect in PCRD and/or its subsidiaries.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

As at December 31, 2014, the directors and chief executives of the Company and their respective close associates had the following interests and short positions in the shares, share stapled units jointly issued by the HKT Trust and HKT Limited (the "Share Stapled Units"), underlying shares, underlying Share Stapled Units 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 required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company 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 the Company

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

Name of Director/ Chief Executive	Number of ordinary shares held Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of shares of the Company in issue
Li Tzar Kai, Richard	–	–	284,671,817 *(Note 1(a))*	1,821,250,692 *(Note 1(b))*	2,105,922,509	28.26%
Hui Hon Hing, Susanna	672,311	–	–	2,301,906 *(Note 2)*	2,974,217	0.04%
Lee Chi Hong, Robert	992,600 *(Note 3(a))*	511 *(Note 3(b))*	–	–	993,111	0.01%
Tse Sze Wing, Edmund	–	351,352 *(Note 4)*	–	–	351,352	0.005%
Dr The Hon Sir David Li Kwok Po	1,047,868	–	–	–	1,047,868	0.01%

Notes:

1. (a) Of these shares, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 249,309,311 shares and Eisner Investments Limited ("Eisner") held 35,362,506 shares. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.

   (b) These interests represented:

   (i) a deemed interest in 36,726,857 shares of the Company held by Yue Shun Limited ("Yue Shun"), a subsidiary of Hutchison Whampoa Limited ("HWL"). Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries held more than one-third of the total number of shares of HWL in issue. 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. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of the Company held by Yue Shun;

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

1. Interests in the Company *(continued)*

Notes: *(continued)*

1. (b) *(continued)*

   (ii) a deemed interest in 162,194,916 shares of the Company held by Pacific Century Group Holdings Limited ("PCGH"). 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 an interest in the 162,194,916 shares of the Company held by PCGH;

   (iii) a deemed interest in 1,622,325,919 shares of the Company held by PCRD, a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 85.30% interest. 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 an interest in the 1,622,325,919 shares of the Company held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.02% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard; and

   (iv) a deemed interest in 3,000 shares of the Company held by PineBridge Investments LLC ("PBI LLC") in the capacity of investment manager. PBI LLC was an indirect subsidiary of Chiltonlink and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 3,000 shares of the Company held by PBI LLC in the capacity of investment manager.

2. These interests represented awards made to Hui Hon Hing, Susanna which were subject to certain vesting conditions pursuant to an award scheme of the Company, namely the Purchase Scheme.

3. (a) These shares were held jointly by Lee Chi Hong, Robert and his spouse.

   (b) These shares were held by the spouse of Lee Chi Hong, Robert.

4. These shares were held by the spouse of Tse Sze Wing, Edmund.

2. Interests in the Associated Corporations of the Company

A. PCCW-HKT Capital No.4 Limited

FWD Life Insurance Company (Bermuda) Limited ("FWD") held US$9,000,000 of 4.25% guaranteed notes due 2016 issued by PCCW-HKT Capital No.4 Limited, an associated corporation of the Company. Li Tzar Kai, Richard indirectly owned an approximate 87.7% interest in FWD.

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

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

B. HKT Trust and HKT Limited

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

Name of Director/ Chief Executive	Number of Share Stapled Units held Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of Share Stapled Units in issue
Li Tzar Kai, Richard	–	–	66,247,614 *(Note 1(a))*	147,909,017 *(Note 1(b))*	214,156,631	2.83%
Hui Hon Hing, Susanna	388,377	–	–	1,729,000 *(Note 2)*	2,117,377	0.03%
Lee Chi Hong, Robert	50,924 *(Note 3(a))*	25 *(Note 3(b))*	–	–	50,949	0.0007%
Tse Sze Wing, Edmund	–	246,028 *(Note 4)*	–	–	246,028	0.003%
Dr The Hon Sir David Li Kwok Po	169,302	–	–	–	169,302	0.002%

Each Share Stapled Unit confers an interest in:

(a) one voting ordinary share of HK$0.0005 in HKT Limited ("HKT"); and
(b) one voting preference share of HK$0.0005 in HKT,

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 dated November 7, 2011 constituting the HKT Trust entered into between HKT Management Limited (in its capacity as the trustee-manager of the HKT Trust) and HKT as supplemented, amended or substituted from time to time and the amended and restated articles of association of HKT, the number of ordinary shares and preference shares of HKT in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

Notes:

1. (a) Of these Share Stapled Units, PCD held 20,227,614 Share Stapled Units and Eisner held 46,020,000 Share Stapled Units.

   (b) These interests represented:

      (i) a deemed interest in 3,122,464 Share Stapled Units held by Yue Shun. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 3,122,464 Share Stapled Units held by Yue Shun;

      (ii) a deemed interest in 13,159,619 Share Stapled Units held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 13,159,619 Share Stapled Units held by PCGH;

      (iii) a deemed interest in 131,626,804 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 131,626,804 Share Stapled Units held by PCRD; and

      (iv) a deemed interest in 130 Share Stapled Units held by PBI LLC in the capacity of investment manager. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 130 Share Stapled Units held by PBI LLC in the capacity of investment manager.

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

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

B. HKT Trust and HKT Limited *(continued)*

Notes: *(continued)*

2. These interests represented awards made to Hui Hon Hing, Susanna which were subject to certain vesting conditions pursuant to an award scheme of HKT, namely the HKT Share Stapled Units Purchase Scheme.

3. (a) These Share Stapled Units were held jointly by Lee Chi Hong, Robert and his spouse.

   (b) These Share Stapled Units were held by the spouse of Lee Chi Hong, Robert.

4. These Share Stapled Units were held by the spouse of Tse Sze Wing, Edmund.

Save as disclosed in the foregoing, as at December 31, 2014, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in any shares, Share Stapled Units, underlying shares, underlying Share Stapled Units and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

1. The Company

A. Share Option Schemes

The Company had a share option scheme which was adopted on September 20, 1994 (the "1994 Scheme"). At the annual general meeting of the Company held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and the adoption of a new share option scheme (the "2004 Scheme"). The 2004 Scheme was subsequently terminated on May 8, 2014 following the approval by the shareholders of the Company at the annual general meeting of the Company held on the same day to adopt another new share option scheme (the "2014 Scheme"). After the termination of both the 1994 Scheme and the 2004 Scheme, no further share options will be granted under such schemes, but in all other respects the provisions of such schemes will remain in full force and effect. There is no material difference between the terms of the 2004 Scheme and the 2014 Scheme.

The Company currently operates the 2014 Scheme, under which the Board may, at its discretion, grant share options to any eligible participant to subscribe for shares of the Company subject to the terms and conditions stipulated therein.

(1) Purpose

The purpose of the 2014 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

(2) Eligible participants

Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of the Group or any member of it, whether in full time or part time employment of the Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the Group or any member of it and any other person whomsoever is determined by the Board as having contributed to the development, growth or benefit of the Group or any member of it or as having spent any material time in or about the promotion of the Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2014 Scheme.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES *(CONTINUED)*

1. **The Company** *(continued)*

   A. **Share Option Schemes** *(continued)*

   (3) Total number of shares available for issue

   The maximum number of shares in respect of which options may be granted under the 2014 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of adoption of the 2014 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 2014 Scheme and other share option schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time.

   (4) The maximum entitlement of each eligible participant

   The maximum entitlement of any eligible participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2014 Scheme is the total number of shares issued and to be issued on exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant up to a maximum of 1% of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting.

   (5) Option period

   The period within which an option may be exercised under the 2014 Scheme will be determined by the Board at its absolute discretion, save that no option may be exercised later than 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 2014 Scheme will be determined by the Board at its absolute discretion, provided that such terms and conditions shall not be inconsistent with the 2014 Scheme.

   (7) Payment on acceptance of the option

   The 2014 Scheme does not specify any consideration which is payable on the acceptance of an option and the Board may at its absolute discretion, determine any other terms and conditions in relation to the option which shall not be inconsistent with the 2014 Scheme. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant. Any option so rejected shall be deemed null and void and never to have been granted.

   (8) Basis of determining the subscription price

   Under the 2014 Scheme, the exercise price in relation to each option shall be determined by the Board at its absolute discretion, but in any event shall not be less than the higher of (i) the closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of such option; and (ii) the average closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the five trading days last preceding the date of grant of such option on which days it has been possible to trade shares on the Stock Exchange.

   (9) The remaining life of the 2014 Scheme

   Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing from its date of adoption, after which period no further options will be offered or granted but the provisions of the 2014 Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the 2014 Scheme.

   As at January 1, 2014 and December 31, 2014, there were no outstanding share options under the 1994 Scheme, the 2004 Scheme and the 2014 Scheme. There were also no share options granted to or exercised by any director or chief executive of the Company or employee of the Group or any other eligible participant, nor any share options cancelled or lapsed under the 1994 Scheme, the 2004 Scheme and the 2014 Scheme during the year ended December 31, 2014.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES *(CONTINUED)*

1. The Company *(continued)*

B. Share Award Schemes

In 2002, the Company established two employee share incentive award schemes, namely the Purchase Scheme and the Subscription Scheme, under which employees of participating subsidiaries of the Company (excluding directors of the Company) may be selected to participate in such schemes. Subject to the relevant scheme rules, each scheme provides that following the making of an award to an employee, the relevant shares are held in trust for that employee and then shall vest over a period of time provided that the employee remains an employee of the applicable subsidiary of the Company at the relevant time and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant committee of the Company's board of directors shall be at liberty to waive such condition. In May 2006, the rules of the Purchase Scheme were altered such that the directors of the Company were also eligible to participate in such scheme. The Purchase Scheme and the Subscription Scheme expired on November 15, 2012 however the shares which were previously awarded prior to the expiry date were not affected. New scheme rules in respect of the Purchase Scheme and the Subscription Scheme were adopted on November 15, 2012 so as to allow both schemes to continue to operate for a further 10 years and to accommodate the grant of the Share Stapled Units in addition or as an alternative to the shares of the Company, in the future.

(i) Purchase Scheme

During the year ended December 31, 2014, an aggregate of 3,839,278 shares of the Company and 307,920 Share Stapled Units were granted pursuant to the Purchase Scheme subject to certain vesting conditions, including awards in respect of 796,362 and 1,651,318 shares of the Company made respectively to Chan Ching Cheong, George (who retired as an Executive Director and the Group Managing Director of the Company during the year) and Hui Hon Hing, Susanna (a director of the Company). Additionally, 1,227,689 shares of the Company have lapsed and/or been forfeited and 8,830,426 shares of the Company have vested; and no Share Stapled Units have lapsed and/or been forfeited and 23,226 Share Stapled Units have vested during the year. As at December 31, 2014, 12,334,066 shares of the Company and 302,144 Share Stapled Units granted pursuant to the Purchase Scheme remained unvested.

(ii) Subscription Scheme

During the year ended December 31, 2014, an aggregate of 6,099,854 shares of the Company were granted pursuant to the Subscription Scheme subject to certain vesting conditions. Additionally, 195,797 shares of the Company have lapsed and/or been forfeited and no shares of the Company have vested during the year. As at December 31, 2014, 5,904,057 shares of the Company granted pursuant to the Subscription Scheme remained unvested. During the year ended December 31, 2014, no Share Stapled Units have been granted to any employees of the Company and/or its subsidiaries under the Subscription Scheme. As at January 1, 2014 and December 31, 2014, none of the Share Stapled Units granted pursuant to the Subscription Scheme remained unvested.

Further details of the two schemes are set out in note 31(b) to the consolidated financial statements.

2. HKT Trust and HKT Limited

A. Share Stapled Units Option Scheme

The HKT Trust and HKT conditionally adopted on November 7, 2011 (the "Adoption Date") a Share Stapled Units option scheme (the "HKT 2011-2021 Option Scheme") which became effective upon listing of the Share Stapled Units. Under the HKT 2011-2021 Option Scheme, the board of directors of HKT Management Limited (the "Trustee-Manager Board") and the board of directors of HKT (the "HKT 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 HKT Board may determine at a subscription price on and subject to the terms and conditions stipulated therein.

(1) Purpose

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

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES *(CONTINUED)*

2. HKT Trust and HKT Limited *(continued)*

A. Share Stapled Units Option Scheme *(continued)*

(2) Eligible participant

Eligible participants include (a) any full-time or part-time employee of HKT and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of HKT 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 HKT and/or any of its subsidiaries.

HKT Management Limited is not an eligible participant under the HKT 2011-2021 Option Scheme.

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

(i) Notwithstanding any other provisions of the HKT 2011-2021 Option Scheme, no options may be granted under the HKT 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 HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 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 HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the HKT 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 of HKT and HKT Management Limited, or any of their respective associates) under the HKT 2011-2021 Option Scheme is 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 HKT 2011-2021 Option Scheme) in the 12-month period up to and including the date of such further grant provided that such further grant does not exceed 1% of the issued Share Stapled Units as at the relevant time.

(5) Option period

An option may be exercised in whole or in part in accordance with the terms of the HKT 2011-2021 Option Scheme at any time during a period to be notified by the Trustee-Manager Board and the HKT 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 HKT 2011-2021 Option Scheme will be determined by the Trustee-Manager Board and the HKT Board in their absolute discretion, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the HKT 2011-2021 Option Scheme.

(7) Payment on acceptance of the option

Upon acceptance of the offer, the grantee shall pay HK$1.00 to HKT 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 HKT 2011-2021 Option Scheme.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES *(CONTINUED)*

2. HKT Trust and HKT Limited *(continued)*

A. Share Stapled Units Option Scheme *(continued)*

(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 HKT 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 sheet 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 HKT 2011-2021 Option Scheme

Subject to the early termination by an ordinary resolution in general meeting of registered holders of Share Stapled Units or resolutions of the HKT Board, the HKT 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 HKT 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 HKT 2011-2021 Option Scheme.

No Share Stapled Unit options have been granted under the HKT 2011-2021 Option Scheme since the Adoption Date and up to and including December 31, 2014.

B. Share Stapled Units Award Schemes

On October 11, 2011, HKT 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 "HKT Share Stapled Units Award Schemes"). The HKT Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by HKT and became effective upon listing of the Share Stapled Units as a potential means to incentivize 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 HKT and/or any of its subsidiaries; and (b) any director (including executive, non-executive and independent non-executive director) of HKT 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 HKT or its subsidiaries and/or any other connected persons of HKT are not eligible participants. The reason why directors of HKT 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 in trust for such directors (or other connected persons).

The HKT Share Stapled Units Award Schemes are administered by the HKT 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 HKT Share Stapled Units Award Schemes, each scheme provides that following the making of an award to an employee of HKT and its subsidiaries (collectively 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, notwithstanding that the relevant committee of the HKT Board shall be at liberty to waive such condition.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES *(CONTINUED)*

2. HKT Trust and HKT Limited *(continued)*

B. Share Stapled Units Award Schemes *(continued)*

During the year ended December 31, 2014, an aggregate of 12,962,935 Share Stapled Units were granted subject to certain vesting conditions pursuant to the HKT Share Stapled Units Purchase Scheme, including an award in respect of 1,757,269 Share Stapled Units made to Hui Hon Hing, Susanna (a director of the Company). Additionally, 344,000 Share Stapled Units have lapsed and/or been forfeited and 2,579,800 Share Stapled Units have vested during the year. As at December 31, 2014, 12,995,117 Share Stapled Units granted pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested.

No Share Stapled Units have been granted under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2014. Please also refer to the details of the awards made to employees during the year ended December 31, 2014 which are set out in note 31(d)(ii) to the consolidated financial statements on pages 140 to 143.

3. Pacific Century Premium Developments Limited ("PCPD")

Share Option Schemes

PCPD, an indirect non-wholly owned subsidiary of the Company, adopted a share option scheme on March 17, 2003 (the "2003 PCPD Scheme"), which was valid for 10 years after the date of adoption. In order to align the terms of the share option scheme of PCPD with those of the Company and in view of the limited number of shares capable of being issued under the 2003 PCPD Scheme relative to the then capital base of PCPD, the shareholders of PCPD approved the termination of the 2003 PCPD Scheme and the adoption of a new share option scheme (the "2005 PCPD Scheme") at PCPD's annual general meeting held on May 13, 2005. The 2005 PCPD Scheme became effective on May 23, 2005 following its approval by the shareholders of the Company. No further share options will be granted under the 2003 PCPD Scheme following its termination, but the provisions of such scheme will remain in full force and effect with respect to the options granted prior to its termination. The board of directors of PCPD may, at its discretion, grant share options to any eligible person to subscribe for shares of PCPD subject to the terms and conditions stipulated in the 2005 PCPD Scheme. Please also refer to note 31(c) to the consolidated financial statements for other details of the share option schemes of PCPD.

The 2005 PCPD Scheme will expire in May 2015 and an ordinary resolution will be proposed at the forthcoming annual general meeting of each of PCPD and the Company to approve PCPD's termination of the 2005 PCPD Scheme and the adoption of a new scheme. Following the termination of the 2005 PCPD Scheme, no further share option will be granted under such scheme, and the provisions of the 2005 PCPD Scheme will remain in full force and effect in all other respects.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES *(CONTINUED)*

3. Pacific Century Premium Developments Limited ("PCPD") *(continued)*

Share Option Schemes *(continued)*

Details of the share options outstanding under the 2003 PCPD Scheme and movements during the year ended December 31, 2014 are as follows:

2003 PCPD Scheme

(1) Outstanding options as at January 1, 2014 and as at December 31, 2014

Name or category of participant	Date of grant *(Note)*	Vesting period *(Note)*	Exercise period *(Note)*	Exercise price HK$	Number of options Outstanding as at 01.01.2014	Outstanding as at 12.31.2014
Director of PCPD's subsidiary						
In aggregate	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	–

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

(2) Options granted during the year ended December 31, 2014

During the year under review, no share options were granted to any director or chief executive of the Company or other participants under the 2003 PCPD Scheme.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES *(CONTINUED)*

3. Pacific Century Premium Developments Limited ("PCPD") *(continued)*

2003 PCPD Scheme *(continued)*

(3) Options exercised during the year ended December 31, 2014

Name or category of participant	Date of grant *(Note)*	Vesting period *(Note)*	Exercise period *(Note)*	Exercise price HK$	Number of shares of PCPD acquired on exercise of options	Weighted average closing price of the shares of PCPD immediately before the date on which the options were exercised HK$
Director of PCPD's subsidiary						
In aggregate	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	3.61

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

During the year under review, no share options were exercised by any director or chief executive of the Company save as disclosed above in this paragraph.

(4) Options cancelled or lapsed during the year ended December 31, 2014

During the year under review, no share options were cancelled or lapsed.

2005 PCPD Scheme

No share options have been granted under the 2005 PCPD Scheme since its adoption.

Save as disclosed above, at no time during the year under review was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement that may enable the directors of the Company to acquire benefits by means of the acquisition of shares or Share Stapled Units in, or debentures of, the Company or any other body corporate and none of the directors or chief executives of the Company or their spouses or children under 18 years of age had any right to subscribe for equity or debt securities of the Company or any of its associated corporations or had exercised any such right during the year under review.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2014, the following persons (other than any directors or chief executives of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of shareholder	*Note(s)*	Number of shares/underlying shares held	Approximate percentage of the total number of shares of the Company in issue
Interests			
PCRD		1,622,325,919	21.77%
PCGH	*1*	1,784,520,835	23.94%
Star Ocean Ultimate Limited	*2 and 3*	1,784,520,835	23.94%
The Ocean Trust	*2*	1,784,520,835	23.94%
The Starlite Trust	*2*	1,784,520,835	23.94%
OS Holdings Limited	*2*	1,784,520,835	23.94%
Ocean Star Management Limited	*2*	1,784,520,835	23.94%
The Ocean Unit Trust	*2*	1,784,520,835	23.94%
The Starlite Unit Trust	*2*	1,784,520,835	23.94%
Star Ocean Ultimate Holdings Limited	*3*	1,784,520,835	23.94%
Fung Jenny Wai Ling	*4*	1,784,520,835	23.94%
Huang Lester Garson	*4*	1,784,520,835	23.94%
中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#) ("Unicom")	*5*	1,362,400,087	18.28%

Notes:

1. These interests represented (i) PCGH's beneficial interests in 162,194,916 shares; and (ii) PCGH's interests (through itself and its controlled corporations, being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 85.30% of the issued share capital of PCRD) in 1,622,325,919 shares held by PCRD.

2. On April 18, 2004, Li Tzar Kai, Richard transferred the entire issued share capital of PCGH to Ocean Star Management Limited as trustee of The Ocean Unit Trust and The Starlite Unit Trust. The entire issued share capital of Ocean Star Management Limited was held by OS Holdings Limited. The Ocean Trust and The Starlite Trust held all units of The Ocean Unit Trust and The Starlite Unit Trust respectively. Star Ocean Ultimate Limited was the discretionary trustee of The Ocean Trust and The Starlite Trust.

3. On November 4, 2013, Star Ocean Ultimate Limited became a controlled corporation of Star Ocean Ultimate Holdings Limited.

4. Fung Jenny Wai Ling and Huang Lester Garson were deemed to be interested in such shares under the SFO as each of them controlled the exercise of one-third or more of the voting power at general meetings of each of Ocean Star Investment Management Limited, OS Holdings Limited and Star Ocean Ultimate Holdings Limited.

5. Unicom indirectly held these interests through China Unicom Group Corporation (BVI) Limited, a company wholly-owned by Unicom.

For identification only

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS REQUIRED TO BE DISCLOSED UNDER THE SFO

As at December 31, 2014, the following person (not being a director or chief executive or substantial shareholder (as disclosed in the previous section headed "**Interests and Short Positions of Substantial Shareholders**") of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name		Number of shares/underlying shares held	Approximate percentage of the total number of shares of the Company in issue
Interests			
Ocean Star Investment Management Limited	*Note*	1,784,520,835	23.94%

Note:
Ocean Star Investment Management Limited was deemed interested under the SFO in the shares of the Company by virtue of it being the investment manager of The Ocean Unit Trust and The Starlite Unit Trust which together held 100% of PCGH (see the notes to the previous section headed "**Interests and Short Positions of Substantial Shareholders**").

Save as disclosed above in this section and the previous section headed "**Interests and Short Positions of Substantial Shareholders**", the Company has not been notified of any other persons (other than any directors or chief executives of the Company) who had an interest or a short position in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO as at December 31, 2014.

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 Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2014, the interests of the directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of Director	Name of company	Nature of business	Nature of interests
Li Tzar Kai, Richard	Cheung Kong and its subsidiaries (the "Cheung Kong Group")	Property development and investment, hotel and serviced suite operation, property and project management, and investment in infrastructure business and securities	Deemed interests in Cheung Kong *(Note 1)*
	HWL and its subsidiaries (the "Hutchison Group")	Ports and related services; property and hotels; retail; infrastructure; energy; telecommunications; and finance & investments and others	Certain personal and deemed interests in HWL *(Note 2)*

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(CONTINUED)*

Name of Director	Name of company	Nature of business	Nature of interests
Lu Yimin	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice Chairman and President of Unicom
	China United Network Communications Limited ("Unicom A-Share") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director and President of Unicom A-Share
	China Unicom (Hong Kong) Limited ("Unicom HK") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and President of Unicom HK
Li Fushen	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director, Vice President and Chief Accountant of Unicom
	Unicom A-Share and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director of Unicom A-Share
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and Chief Financial Officer of Unicom HK
Zhang Junan (appointed on August 6, 2014)	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice President of Unicom
	Unicom A-Share and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director of Unicom A-Share
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and Senior Vice President of Unicom HK
	China Communications Services Corporation Limited ("CCSCL")	Network construction, outsourcing service, content applications and other services	Non-Executive Director of CCSCL
Li Gang (resigned on August 6, 2014)	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice President of Unicom
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Senior Vice President of Unicom HK

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(CONTINUED)*

In addition, Li Tzar Kai, Richard is a director of certain private companies (the "Private Companies"), which are engaged in property development and investment in Hong Kong and Japan.

Further, Li Tzar Kai, Richard is a director and Chairman of PCRD. PCRD is an investment holding company with interests in telecommunications and media (through the Company), financial services, property and infrastructure investment and development in the Asia Pacific region.

The business interests of the Private Companies in Hong Kong are not significant when compared with the business of the Group and it is unlikely that such business interests will compete with the business of the Group. The business interests in Japan and the Asia Pacific region are also unlikely to compete with the existing business of the Group.

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in PCRD and PCGH due to the interests as disclosed in the section headed "**Directors' and Chief Executives' Interests and Short Positions in Shares, Share Stapled Units, Underlying Shares, Underlying Share Stapled Units and Debentures of the Company and its Associated Corporations**" of this report.

As PCRD and the Private Companies are involved in the development and/or investment of properties of different types and/or in different locations, the Group has been operating independently of, and at arm's length from, the businesses of those companies.

Furthermore, the Group holds minority equity interests in a number of Internet-related companies in which the Group is entitled to appoint, and has appointed, one or more directors to the respective boards of these companies to represent the interests of the Group. Some or all of these companies may compete directly or indirectly, with certain aspects of the Group's business.

Other than as disclosed above, none of the directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

Notes:

1. Certain businesses of the Cheung Kong Group may compete with certain aspects of the business of the Group. Li Tzar Kai, Richard 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 Cheung Kong.

2. 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. Certain businesses of the Hutchison Group compete with certain aspects of the business of the 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.

CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK$1.22 million (2013: HK$0.03 million).

SUBSEQUENT EVENT

Details of the significant subsequent event are set out in note 44 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2014, the Group has entered into certain transactions which constituted connected transaction and/or continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below in accordance with the Listing Rules:

Connected Transaction

On April 8, 2014, the Company announced that Web Commerce Limited ("WCL"), a wholly-owned subsidiary of the Company, entered into a subscription agreement and an amended and restated limited partnership agreement (the "Limited Partnership Agreement") with Vision Knight Capital (China) GP II, L.P. (the "General Partner"), to invest up to a maximum amount of US$5 million (approximately HK$39 million) in Vision Knight Capital (China) Fund II, L.P. (the "Fund") as one of the limited partners of the Fund (the "Limited Partners").

The Fund has been established in the Cayman Islands as an exempted limited partnership with the principal objective of generating capital returns primarily through equity and equity-related investments in companies that are beneficiaries of domestic consumption in the People's Republic of China ("PRC"). The Fund is managed by the General Partner which has appointed Vision Knight Capital Management Company Limited (the "Management Company") as the fund manager of the Fund. The total aggregate capital commitments to the Fund and its affiliated vehicle by the Limited Partners shall not exceed US$550 million (approximately HK$4,290 million) and the term of the Fund commenced on April 9, 2014 and will end when the Fund dissolves in accordance with the terms of the Limited Partnership Agreement.

Wei Zhe, David, a non-executive director of the Company, is one of the founders of the Management Company. He is also a director and a beneficial owner of each of the General Partner and the Management Company. Accordingly, the Fund, the General Partner and the Management Company are associates of Wei Zhe, David under the Listing Rules and, therefore, connected persons (as defined in the Listing Rules) of the Company under the Listing Rules. As such, the investment by WCL of a limited partnership interest in the Fund (the "Investment") constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. When aggregated with the prior investment by WCL of a limited partnership interest in a fund as disclosed in the announcement of the Company dated August 13, 2012, the percentage ratios (as defined in the Listing Rules) applicable to the Investment exceed 0.1% but do not exceed 5% and, therefore, the Investment was only subject to the reporting and announcement requirements and was exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the transaction were set out in the Company's announcement dated April 8, 2014.

Continuing Connected Transactions

1. **China United Network Communications Group Company Limited ("Unicom") and its subsidiaries and associates (collectively the "Unicom Group")**

   A wholly-owned subsidiary of Unicom is a substantial shareholder and connected person of the Company. In addition, Unicom's indirect subsidiary is a substantial shareholder of 聯通黃頁信息有限公司 (Unicom Yellow Pages Information Co., Ltd.), an indirect subsidiary of the Company. Accordingly, members of the Unicom Group are connected persons of the Company and transactions between the Group and the Unicom Group constitute connected transactions for the Company under the Listing Rules.

   The Group has, from time to time, entered into transactions with the Unicom Group relating to the acquisition and provision of certain information technology services and products (the "Unicom Transactions"). These transactions constituted continuing connected transactions of the Company under the Listing Rules.

   It is considered that the entering into of the Unicom Transactions with the Unicom Group is consistent with the commercial objectives of the Group and falls within the core business of the Group. It is anticipated that the entering into of the Unicom Transactions with the Unicom Group will further strengthen the Group's position as a provider of the information technology services in the PRC.

   The Company issued an announcement on December 10, 2014 disclosing a new set of annual caps in respect of each of the following categories of the Unicom Transactions for the three financial years ending December 31, 2017 based on the nature of transactions from time to time entered into with the Unicom Group:

   (1) Provision of data services by the Group to the Unicom Group;

   (2) Provision of data services by the Unicom Group to the Group; and

   (3) Provision of systems integration services by the Group to the Unicom Group.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Continuing Connected Transactions *(continued)*

1. **China United Network Communications Group Company Limited ("Unicom") and its subsidiaries and associates (collectively the "Unicom Group")** *(continued)*

The consideration for each of the above categories of the Unicom Transactions is or will be for prices set out in the relevant agreements between the relevant parties, settled in accordance with the terms set out therein and determined by arm's length negotiations between the relevant parties with reference to (i) the estimated costs of the provision of the relevant services to and/or from the Unicom Group; and (ii) if applicable, the estimated costs of the relevant hardware equipment and the resources to be incurred by the Group for installing the same. In general, the duration or term of each Unicom Transaction will not exceed three years, other than those capacity purchase and sale contracts relating to the grant of indefeasible rights to use bandwidth capacity within the economic life of the bandwidth capacity (the "IRU Contracts") available on both groups' networks to and/or from the Unicom Group.

The Group may, from time to time, enter into the IRU Contracts which are categorized under data services (as mentioned above) and are part of the normal commercial activities of the Group. As disclosed in the Company's announcement dated December 10, 2014, Investec Capital Asia Limited was appointed as the Company's independent financial adviser in accordance with the Listing Rules to advise on the duration of the IRU Contracts to be entered into by the Group and the Unicom Group and was of the opinion that (i) the duration of the IRU Contracts being longer than three years and for up to 15 years is essential to safeguard the interests of the Company and its shareholders; and (ii) it is a normal business practice for contracts of this type to be of such duration. Waivers were sought and granted by the Stock Exchange from strict compliance with certain Listing Rules requirements to have written agreements for the Unicom Transactions and an independent financial adviser opinion each time an IRU Contract with the Unicom Group with a duration exceeding three years was executed. Such waivers apply until December 31, 2017.

The approximate aggregate value and the annual caps of each category of the Unicom Transactions are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2014 HK$'000	Annual cap for the Unicom Group for the financial year ended December 31, 2014 HK$'000
(1) Provision of data services by the Group to the Unicom Group	155,800	500,000
(2) Provision of data services by the Unicom Group to the Group	148,791	650,000
(3) Provision of systems integration services by the Group to the Unicom Group	159,963	500,000

As referred to in the Company's announcement dated January 4, 2008, 電訊盈科信息技術(廣州)有限公司 (PCCW Solutions (Guangzhou) Limited) ("PCCW GZ"), an indirect wholly-owned subsidiary of the Company, entered into a lease and facility and management services agreement (the "Agreement") with 中國網絡通信集團公司廣東省分公司 (China Network Communications Group Corporation Guangdong Branch) ("CNC GD"), the Guangdong branch of China Network Communications Group Corporation ("CNC") in January 2008 with duration exceeding three years. These transactions constituted continuing connected transactions of the Company under the Listing Rules. It is considered that the entering into of the Agreement with the Unicom Group will complement and ensure stable, uninterrupted and reliable services to be provided by the Group and will allow the Group to achieve its commercial objectives and enhance the core business of the Group, which may enhance the business and performance of the Group.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Continuing Connected Transactions *(continued)*

1. **China United Network Communications Group Company Limited ("Unicom") and its subsidiaries and associates (collectively the "Unicom Group")** *(continued)*

   Pursuant to the Agreement, CNC GD leases to PCCW GZ an area for use as a service centre and provides PCCW GZ with facility and management services in respect of certain area in CNC Science Town Telecommunications Hub Building situated in the Guangzhou Science Town, Guangdong Province, the PRC (the "Lease and Facility and Management Services"). Access Capital Limited (now known as Investec Capital Asia Limited), an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules, was of the view that the transactions under the Agreement may enhance and safeguard the business and performance of the Group, and the interests of the Company and its shareholders as a whole, and given the nature of the lease and the services to be provided by CNC GD under the Agreement and any supplemental agreement when it is entered into, it is a normal business practice for the Agreement and the supplemental agreement in relation to the optional extended areas (if and when it is entered into when the area extension option is exercised by PCCW GZ pursuant to the Agreement), if any, to have a duration of 15 years, with an option to renew for another five years. The approximate service fees charged by CNC GD for the year ended December 31, 2014 was HK$18,700,334 which did not exceed the annual cap for the seventh year of the 15-year term of HK$34,703,000.

   The Unicom Transactions and the Lease and Facility and Management Services are collectively referred to as the "CU Transactions".

2. **Annual Review of Continuing Connected Transactions**

   The Company's external auditor was engaged to report on the CU Transactions entered into by the Group for the year ended December 31, 2014 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 CU Transactions in accordance with Rule 14A.56 of the Listing Rules.

   The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CU Transactions for the year ended December 31, 2014 were entered into:

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

   (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

   (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 4 to the consolidated financial statements. In relation to those related party transactions that constituted connected transactions under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

AUDITOR

The financial statements for the financial year ended December 31, 2014 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Philana WY Poon
Group Company Secretary
Hong Kong, February 11, 2015

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS OF PCCW LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of PCCW Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 59 to 181, which comprise the consolidated and company statements of financial position as at December 31, 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated 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 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 these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 80 of Schedule 11 to 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 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 entity's preparation of 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 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2014 and of the 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 Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 11, 2015

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

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2014

In HK$ million (except for earnings per share)	Note(s)	2013	**2014**
Turnover	5 & 6	27,317	**33,277**
Cost of sales		(13,111)	**(15,151)**
General and administrative expenses		(10,735)	**(14,091)**
Other gains, net	7	685	**2,717**
Interest income		80	**90**
Finance costs	9	(1,111)	**(1,418)**
Share of results of associates		57	**45**
Share of results of joint ventures		83	**5**
Profit before income tax	6 & 8	3,265	**5,474**
Income tax	11	(210)	**(803)**
Profit for the year		3,055	**4,671**
Attributable to:			
Equity holders of the Company		1,885	**3,310**
Non-controlling interests		1,170	**1,361**
Profit for the year		3,055	**4,671**
Earnings per share	14		
Basic		25.98 cents	**45.14 cents**
Diluted		25.95 cents	**45.05 cents**

The notes on pages 66 to 181 form part of these consolidated financial statements. Details of dividend payable to equity holders of the Company attributable to the profit for the year are set out in note 13.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2014

In HK$ million	2013	**2014**
Profit for the year	3,055	**4,671**
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to income statement:		
Remeasurements of defined benefit obligations	85	**(15)**
Share of other comprehensive loss of an associate	(1)	**(1)**
	84	**(16)**
Items that have been reclassified or may be reclassified subsequently to income statement:		
Translation exchange differences:		
– exchange differences on translating foreign operations	(300)	**(389)**
– exchange gain on translating foreign operations transferred to consolidated income statement upon disposal	–	**(1,324)**
Available-for-sale financial assets:		
– changes in fair value	192	**(87)**
– transfer to income statement on disposal	–	**(1)**
– transfer to income statement on impairment	1	**–**
Cash flow hedges:		
– effective portion of changes in fair value	30	**10**
– transfer from equity to income statement	(45)	**(4)**
	(122)	**(1,795)**
Other comprehensive loss for the year	(38)	**(1,811)**
Total comprehensive income for the year	3,017	**2,860**
Attributable to:		
Equity holders of the Company	1,871	**1,742**
Non-controlling interests	1,146	**1,118**
Total comprehensive income for the year	3,017	**2,860**

The notes on pages 66 to 181 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2014

In HK$ million	Note(s)	The Group 2013 Attributable to equity holders of the Company	The Group 2013 Non-controlling interests	The Group 2013 Total equity	The Company 2013 Total equity
At January 1, 2013		8,800	(662)	8,138	28,416
Total comprehensive income/(loss) for the year					
Profit/(Loss) for the year		1,885	1,170	3,055	(160)
Other comprehensive income/(loss)					
Items that will not be reclassified subsequently to income statement:					
Remeasurements of defined benefit obligations		85	–	85	–
Share of other comprehensive loss of an associate		(1)	–	(1)	–
Items that have been reclassified or may be reclassified subsequently to income statement:					
Exchange differences on translating foreign operations		(267)	(33)	(300)	–
Available-for-sale financial assets:					
– changes in fair value		160	32	192	–
– transfer to income statement on impairment		1	–	1	–
Cash flow hedges:					
– effective portion of changes in fair value		33	(3)	30	40
– transfer from equity to income statement		(25)	(20)	(45)	(4)
Other comprehensive (loss)/income		(14)	(24)	(38)	36
Total comprehensive income/(loss) for the year		1,871	1,146	3,017	(124)
Transactions with equity holders					
Purchases of shares of PCCW Limited ("PCCW Shares") under share award scheme		(42)	–	(42)	–
Purchases of share stapled units of HKT Trust and HKT Limited ("Share Stapled Units") under share award schemes		(35)	(17)	(52)	–
Employee share-based compensation		41	4	45	–
Vesting of PCCW Shares and Share Stapled Units under share award schemes		(1)	1	–	–
Dividend paid in respect of previous year	13 & 32	(985)	–	(985)	(985)
Dividend declared and paid in respect of the current year	13 & 32	(462)	–	(462)	(462)
Dividend declared and paid to non-controlling shareholders of subsidiaries		–	(1,011)	(1,011)	–
Dividend declared and payable to non-controlling shareholders of a subsidiary		–	(37)	(37)	–
Total contributions by and distributions to equity holders		(1,484)	(1,060)	(2,544)	(1,447)
Effects of consolidation of a former associate		–	22	22	–
Total changes in ownership interests in subsidiaries that do not result in a loss of control		–	22	22	–
Total transactions with equity holders		(1,484)	(1,038)	(2,522)	(1,447)
At December 31, 2013		9,187	(554)	8,633	26,845

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY *(CONTINUED)*

For the year ended December 31, 2014

In HK$ million	Note(s)	The Group 2014 Attributable to equity holders of the Company	The Group 2014 Non-controlling interests	The Group 2014 Total equity	The Company 2014 Total equity
At January 1, 2014		9,187	(554)	8,633	26,845
Total comprehensive income for the year					
Profit for the year		3,310	1,361	4,671	3,564
Other comprehensive income/(loss)					
Items that will not be reclassified subsequently to income statement:					
Remeasurements of defined benefit obligations		(15)	–	(15)	–
Share of other comprehensive loss of an associate		(1)	–	(1)	–
Items that have been reclassified or may be reclassified subsequently to income statement:					
Exchange differences on translating foreign operations		(320)	(69)	(389)	–
Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal		(1,206)	(118)	(1,324)	–
Available-for-sale financial assets:					
– changes in fair value		(47)	(40)	(87)	–
– transfer to income statement on disposal		(1)	–	(1)	–
Cash flow hedges:					
– effective portion of changes in fair value		17	(7)	10	29
– transfer from equity to income statement		5	(9)	(4)	–
Other comprehensive (loss)/income		(1,568)	(243)	(1,811)	29
Total comprehensive income for the year		1,742	1,118	2,860	3,593
Transactions with equity holders					
Purchases of PCCW Shares under share award scheme		(4)	–	(4)	–
Purchases of Share Stapled Units under share award schemes		(6)	(3)	(9)	–
Employee share-based compensation		74	22	96	–
Vesting of PCCW Shares and Share Stapled Units under share award schemes		1	(1)	–	–
Dividend for Share Stapled Units granted under share award schemes		(3)	(1)	(4)	–
PCCW Shares issued in lieu of cash dividends	29	756	–	756	756
Dividend paid in respect of previous year	13 & 32	(1,009)	–	(1,009)	(1,009)
Dividend declared and paid in respect of the current year	13 & 32	(517)	–	(517)	(517)
Dividend declared and paid to non-controlling shareholders of subsidiaries		–	(1,211)	(1,211)	–
Total contributions by and distributions to equity holders		(708)	(1,194)	(1,902)	(770)
Contribution from non-controlling shareholders of a subsidiary		–	6	6	–
Acquisition of a subsidiary		–	36	36	–
Disposal of a subsidiary		–	(124)	(124)	–
Change in ownership interests in a subsidiary without change of control		24	37	61	–
Exercise of employee share options of a subsidiary		(6)	18	12	–
Rights issue of a subsidiary		–	2,917	2,917	–
Transaction costs in relation to the issuance of Share Stapled Units		(82)	(48)	(130)	–
Total changes in ownership interests in subsidiaries that do not result in a loss of control		(64)	2,842	2,778	–
Total transactions with equity holders		(772)	1,648	876	(770)
At December 31, 2014		10,157	2,212	12,369	29,668

The notes on pages 66 to 181 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at December 31, 2014

In HK$ million	Note	The Group 2013	The Group 2014	The Company 2013	The Company 2014
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	15	15,693	**17,337**	–	**–**
Investment properties	16	8,436	**1,878**	–	**–**
Interests in leasehold land	17	496	**464**	–	**–**
Properties held for/under development	18	1,024	**895**	–	**–**
Goodwill	19	3,469	**17,075**	–	**–**
Intangible assets	20	3,574	**10,195**	–	**–**
Interests in subsidiaries	21	–	**–**	12,089	**17,072**
Interests in associates	22	661	**687**	–	**–**
Interests in joint ventures	23	582	**497**	–	**–**
Held-to-maturity investments		1	**1**	–	**–**
Available-for-sale financial assets	24	706	**754**	–	**–**
Derivative financial instruments	28	67	**–**	–	**–**
Deferred income tax assets	33(a)	1,078	**1,059**	–	**–**
Other non-current assets		571	**806**	–	**–**
		36,358	**51,648**	12,089	**17,072**
Current assets					
Amounts due from subsidiaries	21(b)	–	**–**	16,749	**16,484**
Sales proceeds held in stakeholders' accounts	25(a)	541	**528**	–	**–**
Restricted cash	25(b)	1,032	**1,022**	–	**–**
Prepayments, deposits and other current assets	25(c)	5,396	**6,429**	8	**38**
Inventories	25(d)	1,199	**801**	–	**–**
Amounts due from related companies	4(c)	89	**95**	–	**–**
Derivative financial instruments	28	–	**49**	–	**–**
Trade receivables, net	25(e)	3,501	**4,497**	–	**–**
Tax recoverable		302	**27**	–	**–**
Short-term deposits		10	**–**	–	**–**
Cash and cash equivalents	35(d)	5,509	**7,943**	1,900	**1,093**
		17,579	**21,391**	18,657	**17,615**
Current liabilities					
Short-term borrowings	25(f)	(1)	**(4,823)**	–	**(946)**
Trade payables	25(g)	(2,118)	**(2,331)**	–	**–**
Accruals and other payables		(4,420)	**(6,787)**	(10)	**(11)**
Amount payable to the Government under the Cyberport Project Agreement	27	(521)	**(522)**	–	**–**
Carrier licence fee liabilities	34	(205)	**(429)**	–	**–**
Amounts due to related companies	4(c)	(126)	**(98)**	–	**–**
Advances from customers		(1,929)	**(2,155)**	–	**–**
Current income tax liabilities		(1,338)	**(1,873)**	–	**–**
		(10,658)	**(19,018)**	(10)	**(957)**
Net current assets		6,921	**2,373**	18,647	**16,658**
Total assets less current liabilities		43,279	**54,021**	30,736	**33,730**

In HK$ million	Note	The Group 2013	The Group 2014	The Company 2013	The Company 2014
Non-current liabilities					
Long-term borrowings	26	(29,074)	**(36,494)**	(1,575)	**(1,778)**
Amount due to a subsidiary	21(c)	–	**–**	(2,010)	**(2,167)**
Derivative financial instruments	28	(711)	**(217)**	(306)	**(117)**
Deferred income tax liabilities	33(a)	(2,658)	**(2,501)**	–	**–**
Deferred income		(951)	**(1,033)**	–	**–**
Defined benefit liability	30(a)	(98)	**(116)**	–	**–**
Carrier licence fee liabilities	34	(605)	**(949)**	–	**–**
Other long-term liabilities		(549)	**(342)**	–	**–**
		(34,646)	**(41,652)**	(3,891)	**(4,062)**
Net assets		8,633	**12,369**	26,845	**29,668**
CAPITAL AND RESERVES					
Share capital: nominal value	29	1,818	**–**	1,818	**–**
Other statutory capital reserves	29	9,146	**–**	9,146	**–**
Share capital	29	10,964	**11,720**	10,964	**11,720**
Other reserves	32	(1,777)	**(1,563)**	15,881	**17,948**
Equity attributable to equity holders of the Company		9,187	**10,157**	26,845	**29,668**
Non-controlling interests		(554)	**2,212**	–	**–**
Total equity		8,633	**12,369**	26,845	**29,668**

Approved and authorized for issue by the board of directors (the "Board") of the Company on February 11, 2015 and signed on behalf of the Board by

Srinivas Bangalore Gangaiah
Director

Hui Hon Hing, Susanna
Director

The notes on pages 66 to 181 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

In HK$ million	Note	2013	2014
NET CASH GENERATED FROM OPERATING ACTIVITIES	35(a)	7,312	**10,553**
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		21	**7**
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	35(c)	–	**6,870**
Purchases of property, plant and equipment		(2,554)	**(3,203)**
Purchases of leasehold land		(8)	**–**
Payment for investment properties		(1,434)	**(573)**
Purchases of intangible assets		(2,512)	**(3,538)**
Net outflow of cash and cash equivalents in respect of business combinations	35(b)	(49)	**(18,769)**
Settlement of contingent consideration upon business combinations		–	**(14)**
Capital contribution to a joint venture		–	**(4)**
Net inflow of cash and cash equivalents in respect of consolidation of a former associate		7	**–**
Loan to an associate		(52)	**(81)**
Loan to a joint venture		(140)	**(68)**
Repayment of loan from an associate		25	**25**
Proceeds from return of investment of joint ventures		231	**66**
Purchases of available-for-sale financial assets		(37)	**(129)**
Proceeds from return of investments of available-for-sale financial assets		181	**17**
Proceeds from disposal of available-for-sale financial assets		–	**1**
Proceeds from disposal of financial assets at fair value through profit or loss		1	**–**
Dividends received from associates		13	**12**
(Increase)/Decrease in short-term deposits with maturity more than three months		(10)	**10**
NET CASH USED IN INVESTING ACTIVITIES		(6,317)	**(19,371)**
FINANCING ACTIVITIES			
Proceeds from disposal of interests in a subsidiary without loss of control	43	–	**61**
Proceeds from rights issue of the HKT Trust and HKT Limited		–	**2,823**
Proceeds from exercise of employee share options of a subsidiary		–	**12**
New borrowings raised, net		18,995	**54,441**
Finance costs paid		(904)	**(1,101)**
Repayments of borrowings		(15,687)	**(42,901)**
Dividends paid to shareholders of the Company		(1,442)	**(765)**
Dividends paid to non-controlling shareholders of subsidiaries		(1,011)	**(1,248)**
Contribution from non-controlling shareholders of a subsidiary		–	**6**
Shareholders' loans raised from non-controlling shareholders of a subsidiary		11	**–**
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(38)	**11,328**
NET INCREASE IN CASH AND CASH EQUIVALENTS		957	**2,510**
Exchange differences		(1)	**(76)**
CASH AND CASH EQUIVALENTS			
Beginning of year		4,553	**5,509**
End of year	35(d)	5,509	**7,943**

The notes on pages 66 to 181 form part of these consolidated financial statements.

1 GENERAL INFORMATION

PCCW Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") and its securities have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 18, 1994. The address of its registered office is 41st Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The principal activities of the Company and its subsidiaries (together the "Group") are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily in Hong Kong, and also in mainland China and other parts of the world; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in Asia.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These consolidated 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 Group is set out below.

In accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit" as set out in sections 76 to 87 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), the consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

b. Basis of preparation of the financial statements

The following new and revised HKFRSs are mandatory for the first time for the financial year beginning January 1, 2014, but had no material effect on the Group's reported results and financial position for the current and prior accounting periods.

- HKAS 27 (2011) (Amendment), 'Separate Financial Statements' – Investment Entities.
- HKAS 32 (Amendment), 'Financial Instruments: Presentation' – Offsetting Financial Assets and Financial Liabilities.
- HKAS 36 (Amendment), 'Impairment of Assets' – Recoverable Amount Disclosures for Non-Financial Assets.
- HKAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' – Novation of Derivatives and Continuation of Hedging Accounting.
- HKFRS 10 (Amendment), 'Consolidated Financial Statements' – Investment Entities.
- HKFRS 12 (Amendment), 'Disclosure of Interests in Other Entities' – Investment Entities.
- HK(IFRIC) – Int 21, 'Levies'.

The Group has not adopted any new or revised HKFRSs that are not yet effective for the current accounting period, details of which are set out in note 45.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

b. Basis of preparation of the financial statements *(continued)*

In addition, the new Hong Kong Companies Ordinance (Cap. 622) abolished the concept of "par value" or "nominal value" of shares and "authorized share capital" for all Hong Kong incorporated companies with effect from March 3, 2014 and this change is reflected in notes 29 and 32.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after March 3, 2014 in accordance with the section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

The consolidated financial statements for the year ended December 31, 2014 comprise the financial statements of the Company and its subsidiaries, and the Group's interests in associates and joint ventures.

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:

– investment properties (see note 2(g));

– available-for-sale financial assets (see note 2(l)(iii)); and

– derivative financial instruments (see note 2(n)).

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 adjustment in the next year are discussed in note 3.

c. Subsidiaries and non-controlling interests

Subsidiaries are entities (including structured entities) controlled by the Group. Control exists when the Group is exposed to, has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

An interest in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. A subsequent change to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognized in accordance with HKAS 39 either in the consolidated income statement or as a charge to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 2(j)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results (see note 41).

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

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

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

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

Adjustments have been made to the financial statements of the subsidiaries when necessary to align their accounting policies to ensure consistency with policies adopted by the Group.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains.

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment losses (see note 2(m)(ii)). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

d. Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method and are initially recorded at cost. The Group's interests in associates includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Group's share of the associates' net assets. The consolidated income statement includes the Group's share of post-acquisition, post-tax results of the associates and any impairment losses for the year. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax items of the associates' other comprehensive income.

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

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's 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 the consolidated income statement where appropriate.

Adjustments have been made to the financial statements of the associates when necessary to align their accounting policies to ensure consistency with policies adopted by the Group.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

e. Joint arrangements

Investments in joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

The Group classifies joint arrangements as joint ventures when the Group has rights to the net assets of the joint arrangement.

Interests in joint ventures are accounted for in the consolidated financial statements under the equity method, as described in note 2(d).

Adjustments have been made to the financial statements of the joint ventures when necessary to align their accounting policies to ensure consistency with policies adopted by the Group.

The Group classifies joint arrangements as joint operations when the Group has rights to the individual assets, and obligations for the individual liabilities, relating to the arrangement.

The Group should recognize in relation to its interest in a joint operation:

i. its assets, including its share of any assets held jointly;

ii. its liabilities, including its share of any liabilities incurred jointly;

iii. its revenue from the sale of its share of the output arising from the joint operation;

iv. its share of the revenue from the sale of the output by the joint operation; and

v. its expenses, including its share of any expenses incurred jointly.

The Group should account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

f. Property, plant and equipment

The following items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(m)(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 2(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 Group 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 income statement as an expense in the period in which they are incurred.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

f. Property, plant and equipment *(continued)*

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 income statement on the date of retirement or disposal.

Freehold land and 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:

Land and buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 13 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 the end of each reporting period.

g. Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation, and which are not occupied by the companies in the consolidated Group. Property that is being constructed or developed for future use as investment property is classified as investment property.

Investment properties are stated in the statement of financial position at fair value, based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee and are prepared or reviewed periodically by independent external valuers. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the properties. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in the income statement. Rental income from investment properties is accounted for as described in note 2(w)(iv).

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies are applied to that interest as are applied to other investment properties held under finance leases. Lease payments are accounted for as described in note 2(h).

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences between the carrying amount and the fair value of the item arising at the date of transfer is recognized directly in equity if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss arising in this manner is recognized immediately in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes. Investment property that is being redeveloped for continued future use as investment property, continues to be measured at fair value and is not reclassified as property, plant and equipment during the redevelopment.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

h. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines 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 Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property, which is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(g)).

ii. Assets leased out under operating leases

Where the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(m)(ii). Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 2(w)(iv).

iii. Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognized in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the 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 statement of financial position as "Interests in leasehold land" and is amortized to the income statement on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(g)) or is held for development (see note 2(i)).

i. Properties held for/under development

Properties under development are carried at the lower of cost and the estimated net realizable value. Cost includes original land acquisition costs, costs of land use rights, construction expenditures incurred and other direct development costs attributable to such properties, including interest incurred on loans directly attributable to the development prior to the completion of construction. The net realizable value is determined by reference to estimated sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses.

Properties under development with the development expected to be completed within one year from the end of the reporting period, which have either been pre-sold or are intended for sale, are classified under current assets.

Properties held for development represent interests in land held for future development which are stated in the statement of financial position at cost less impairment losses (see note 2(m)(ii)).

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

j. Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a joint venture over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated statement of financial position at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see note 2(m)(ii)). In respect of associates and joint ventures, the carrying amount of goodwill is included in the carrying amount of the interests in associates and joint ventures.

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

k. 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 Group and such costs can be measured reliably. Capitalized customer acquisition costs are amortized on a straight-line basis over the minimum enforceable contractual periods. At 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 income statement.

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 Group has the right to return a licence and expects 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, commencing from the date of launch of the relevant telecommunication services.

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 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 income statement as incurred.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

k. Intangible assets (other than goodwill) *(continued)*

iii. Capitalized programme costs

Costs incurred to produce or acquire television rights for which the Group can determine the broadcasting schedules, are capitalized as "intangible assets". The intangible assets are amortized on an accelerated basis over the shorter of the expected economic life of 1 to 3 years and the licence period. Other costs incurred for the transmission rights for showing programmes, sports events and films on the Group's television channels, including sport rights for multiple seasons or competitions, of which the broadcasting schedules are determined by the content providers, are recognized in the income statement on a straight-line basis over the period of transmission rights across the season or competition. Other payments made in advance or in arrears of programme costs recognized are stated in the statement of financial position as "Prepayments, deposits and other current assets" or "Accruals and other payables", as appropriate.

iv. Software

Costs incurred to acquire, develop or enhance scientific or technical knowledge, design and implementation of new process or systems are capitalized as "intangible assets" if they are identifiable and the Group has power to obtain future economic benefits flowing from the underlying resource.

Development costs that are directly attributable to the design and testing of the identifiable software are capitalized as intangible assets if the following criteria are met:

– it is technically feasible to complete the software so that it will be available for use;

– adequate technical, financial and other resources are available to complete the development and to use the software;

– the costs attributable to acquisition, development and enhancement of the software can be reliably measured; and

– the Group has power to obtain future economic benefits flowing from the underlying resource.

Development costs that do not meet the above criteria are expensed in the income statement as incurred.

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 8 years.

v. Other intangible assets

Other intangible assets that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 2(m)(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 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	2 to 20 years
Content licence	10 years
Customer base	1 to 10 years
Wireless broadband licence	Over the term of licence

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

l. Investments in debt and equity securities

The Group and the Company classify their investments in debt and equity securities, other than interests in subsidiaries, associates and joint arrangements, as (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments, or (iii) available-for-sale financial assets.

Investments in debt and 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. For unlisted securities or financial assets without an active market, the Group established fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the statement of financial position at cost less impairment losses (see note 2(m)(i)). The investments are subsequently accounted for based on their classification as set out below:

i. Financial assets at fair value through profit or loss

This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term or if so designated by management.

Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period. Any attributable transaction costs are recognized in the income statement as incurred. At the end of each reporting period, the fair value is re-measured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in the income statement in the period in which they arise. The net gain or loss recognized in the income statement does not include any interest earned or dividends on the financial assets as these are recognized in accordance with the policies set out in notes 2(w)(vi) and 2(w)(viii) respectively.

ii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and/or the Company have the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Held-to-maturity investments are stated in the statement of financial position at amortized cost less impairment losses (see note 2(m)(i)).

iii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Group and/or the Company intend to dispose of the investment within 12 months from the end of the reporting period.

At the end of each reporting period, 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 2(m)(i)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognized directly in the income statement. Dividend income from these investments is recognized in the income statement in accordance with the policy set out in note 2(w)(viii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the income statement in accordance with the policy set out in note 2(w)(vi). When the investments are derecognized or impaired (see note 2(m)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the income statement.

Investments in debt and equity securities are recognized or derecognized on the date the Group and/or the Company commit to purchase or sell the investments or they expire.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

m. Impairment of assets

i. Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than interests in subsidiaries, associates and joint arrangements: see note 2(m)(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 the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group 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;

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets; or

– in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

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

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– 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 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 in other comprehensive income is reclassified from equity to the income statement as a reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the 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 financial asset previously recognized in the income statement.

  Impairment losses recognized in the income statement in respect of equity instruments classified as available-for-sale financial assets are not reversed through the 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 in respect of debt instruments classified as available-for-sale financial assets are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in the income statement.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

m. Impairment of assets *(continued)*

i. Impairment of investments in debt and equity securities and other receivables *(continued)*

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 Group is 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 income statement.

ii. Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, 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;

– properties held for/under development;

– intangible assets;

– interests in associates and joint arrangements;

– goodwill; and

– interests in subsidiaries (at Company level).

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 higher 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 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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

m. Impairment of assets *(continued)*

ii. Impairment of other assets *(continued)*

– 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 income statement in the period in which the reversals are recognized.

iii. Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34 'Interim Financial Reporting', in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and 2(m)(ii)).

Impairment losses recognized in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

n. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of each reporting period. The gain or loss on remeasurement to fair value is recognized immediately in the 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 2(o)).

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining maturity of the 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. Trading derivatives are classified as a current asset or liability.

o. 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 income statement within "Finance costs", 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 Group revokes 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 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 income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a 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.

o. Hedging *(continued)*

ii. Cash flow hedge *(continued)*

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 income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (such as when the interest income or expense is recognized).

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

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Group revokes 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 income statement.

p. 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 Group's 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.

q. Construction contracts

The accounting policy for contract revenue is set out in note 2(w)(v). When the outcome of a construction contract can be estimated reliably, contract costs are recognized as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable and the contract costs are recognized as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded in the statement of financial position at the net amount of costs incurred plus recognized profits less recognized losses and estimated value of work performed, including progress billing, and are presented in the statement of financial position as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings for work performed on a contract not yet paid by customers are included in the statement of financial position under "Trade receivables, net".

r. 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 2(m)(i)).

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

s. 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 Group's cash management.

t. 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.

u. 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 income statement over the period of the borrowings, using the effective interest method.

v. Provisions and contingent liabilities

Provisions are recognized when (i) the Group or the Company has 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.

w. Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the 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 Group's 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 sale 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. Sales of properties

Revenue and profits arising from sales of completed properties are recognized upon execution of legally binding unconditional sales contracts upon which the beneficial interest in the properties passes to the purchasers together with the significant risks and rewards of ownership.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

w. Revenue recognition *(continued)*

iv. Rental income from operating leases

Rental income receivable under operating leases is recognized in the income statement in equal instalments over the periods covered by the lease term. Lease incentives granted are recognized in the 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.

v. 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.

vi. Interest income

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

vii. Commission income

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

viii. Dividend income

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

x. Borrowing costs

Borrowing costs are expensed in the 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 completed.

Discounts or premiums relating to borrowings, 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.

y. 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 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 end of the reporting period, and any adjustment to income tax payable in respect of previous years.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

y. Income tax *(continued)*

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 utilized, 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 end of the reporting period 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 the end of each reporting period 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 Company or the Group has 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 Company or the Group intends 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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

z. 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 Group operates both defined benefit and 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 contributions from the relevant Group companies and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries if applicable.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

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

The Group's defined benefit liability recognized in the consolidated statement of financial position in respect of defined benefit retirement schemes is the present value of the defined benefit obligation at the end of the reporting period less the fair value of scheme assets. The calculation is performed annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates with reference to market bond yields at the end of the reporting period, which have terms approximating the terms of the related liability.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in staff costs in the income statement.

In calculating the Group's defined benefit liability in respect of defined benefit retirement schemes, any actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

iii. Share-based payments

The Group operates share option schemes where employees (and including directors) are granted options to acquire PCCW Shares 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 income statement with a corresponding increase in an 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 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 employee 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 employee share-based compensation reserve). The equity amount is recognized in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share capital account) or the share options expire (when it is released directly to retained profits or accumulated loss). When the share options are exercised, the proceeds received, net of any directly attributable transaction cost, are credited to share capital.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

z. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

The Group also grants shares of the Company to employees at nil consideration under its share award schemes, under which the awarded shares are either newly issued at issue price (the "Subscription Scheme") or are purchased from the open market (the "Purchase Scheme"). The cost of shares purchased from the open market is recognized in equity as treasury stock. The fair value of the employee services received in exchange for the grant of shares under both schemes is recognized as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the awarded shares is measured by the quoted market price of the shares at grant date and is charged to the income statement over the respective vesting period. During the vesting period, the number of awarded shares that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the 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 employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded shares that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded shares recognized as treasury stock is transferred to the employee share-based compensation reserve with difference to be recognized in equity.

PCCW Shares granted to employees of the Group by the principal shareholder of the Company are accounted for in accordance with the same policy for the granted shares options under share option schemes as described above. The fair value of PCCW Shares granted by principal shareholder is measured by the quoted market price of PCCW Shares at grant date and is charged to the income statement over the respective vesting period.

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.

aa. Share-based payment transactions with cash alternatives

Share-based payment transactions are those arrangement which the terms provide either the Group or the counterparty with a choice of whether the Group settles the transaction in cash (or other assets) or by issuing equity instruments. Upon the vesting conditions, if any, are met, the Group shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash (or other assets). Otherwise, the share-based payment transaction is accounted for as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

bb. Translation of foreign currencies

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

Foreign currency transactions during the year are translated 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 end of the reporting period. Exchange gains and losses are recognized in the 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, such as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss in the 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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

bb. Translation of foreign currencies *(continued)*

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. Items of foreign operations in the statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after January 1, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. Goodwill arising on consolidation of a foreign operation acquired before January 1, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation. 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 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.

cc. Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

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

ii. the Group and the party are subject to common control;

iii. the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv. the party is a member of key management personnel of the Group or the Group'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 note 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 Group or of any entity that is a related party of the Group.

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.

dd. 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 Group's 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. These transactions are eliminated upon consolidation.

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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

ee. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

Payable for dividend in specie of the Group's interests in its subsidiaries is measured at the fair value of the interests in the subsidiaries to be distributed. Upon the settlement of dividend payable, any difference between the carrying amount of the interests in the subsidiaries distributed and the carrying amount of the dividend payable is recognized in equity if the Group continues to control the subsidiaries after distribution.

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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 19, 30(a) and 37 contain information about the assumptions and their risk factors relating to goodwill impairment, defined benefit liability and financial instruments. Management has also made judgements in applying the Group's accounting policies. These judgements and other key sources of estimation uncertainty are discussed below:

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

The Group has significant property, plant and equipment and intangible assets (other than goodwill). The Group is 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 Group's strategies. The Group performs 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 Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

During the year ended December 31, 2014, the Group performed a review to reassess the useful lives of certain property, plant and equipment of the Group, based on the expectations of the Group's operational management and technological trend. The reassessment has resulted in changes in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and therefore accounted for the change prospectively from July 1, 2014. As a result of this change in accounting estimate, the Group's profit after non-controlling interests for the year ended December 31, 2014 decreased by HK$527 million and the net assets after non-controlling interests as at December 31, 2014 decreased by HK$527 million.

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

At the end of each reporting period, the Group reviews internal and external sources of information to identify indications that the following classes of asset 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;
- properties held for/under development;
- intangible assets;
- interests in associates and joint arrangements;
- goodwill; and
- interests in subsidiaries (at Company level).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

ii. Impairment of assets (other than investments in debt and equity securities and other receivables) *(continued)*

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 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 Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period. Such information is particularly significant as it relates to the Group's 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 Group 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 Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Group may perform such assessments utilizing internal resources or the Group may engage external advisors to counsel the Group. Regardless of the resources utilized, the Group is required to make many assumptions to make these assessments, 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.

For the year ended December 31, 2014, a provision for impairment of HK$84 million was recognized on the property held for development resulting in the carrying amount being written down to its recoverable amount of approximately HK$566 million (note 18(b)).

For the year ended December 31, 2014, a provision for impairment of an interest in an associate of HK$52 million was recognized resulting in the carrying amount being written down to its recoverable amount (note 22(d)).

iii. Revenue recognition

Telecommunications service revenue based on usage of the Group's 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 Group is 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 Group offers 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.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

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 Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates 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 Group's ability to utilize 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 Group makes 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 Group. 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 Group considers 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. Recognition of intangible asset – Carrier licences

In order to measure the intangible assets, HKAS 39 (revised) '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 Group. Had a different discount rate been used to determine the fair value, the Group's results of operations and financial position could be materially different.

vii. Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers on a market value basis and (ii) other principal assumptions, including the current and expected market yield, market price, market rent and the outstanding development costs in view of the current usage and condition of the investment properties to determine the fair value of the investment properties. Had the Group used different market yields, market prices, market rents or other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2014, the fair value of the investment properties was HK$1,878 million.

viii. Recognition and fair value of identifiable intangible assets through business combination

The Group applies the acquisition method of accounting to account for acquisitions of businesses. In business combinations of multiple companies or businesses, 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

viii. Recognition and fair value of identifiable intangible assets through business combination *(continued)*

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, cash flow, useful lives and discount rate used.

ix. Consolidation of entities in which the Group holds less than 50% equity interest

The Group has considered that All's Well Media Company Limited ("AWL") is controlled by the Group, even though the Group holds less than 50% equity interest of AWL.

The Group has a 35.02% equity interest in AWL. This company is consolidated by the Group as the Group has sufficient dominant voting interest and power to direct the key financing and operating decisions of AWL.

x. Classification of joint arrangements

The Group has made investments in joint arrangements 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. Therefore these joint arrangements are classified as joint ventures of the Group.

The Group classified joint arrangements as joint operations whereby the Group has rights to assets and obligations for the liabilities of the arrangement.

xi. Purchase consideration for a plot of land in Indonesia

On May 23, 2013, Pacific Century Premium Developments Limited ("PCPD") and its subsidiaries (collectively the "PCPD Group") entered into the Land Sale and Purchase Agreement (the "Land SPA") for the acquisition of a plot of land for the development of a Premium Grade A office building in Jakarta, Indonesia. The total consideration under the Land SPA is US$184 million (equivalent to approximately HK$1,428 million), which is subject to various downward adjustments in certain circumstances.

Management expected that the seller of the land will be able to fulfill the conditions as set out in the Land SPA and the deductions from the outstanding consideration is unlikely, as such the total consideration of US$184 million is recorded as the cost of the land and the outstanding consideration to be paid is recorded as payables as at December 31, 2014.

In case there is any downward adjustment from the consideration to be paid for the land acquisition, it would affect the payable to the seller recorded in the statement of financial position as at December 31, 2014.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

xii. Cost of sales and amount payable to the Government under the Cyberport Project Agreement

Pursuant to the agreement dated May 17, 2000 entered into with the Government of Hong Kong (the "Government") (the "Cyberport Project Agreement"), the Government is entitled to receive approximately 65% of the surplus cash flow earned from the Cyberport project. The amounts paid and payable to the Government are part of the Group's costs of developing the Cyberport project.

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the Government is allocated to the cost of properties sold on a systematic basis over the life of the project using a relative value approach. This approach considers the value of development costs attributable to phases for which revenue has been recognized to date relative to the total expected value of development costs for the development as a whole. Had the estimates of these relative values been revised, this would have affected the costs of properties sold recorded in the consolidated income statement.

4 RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

In HK$ million	Note	The Group 2013	2014
Telecommunications service fees, facility management service charges and interest income received or receivable from joint ventures	a	57	**93**
System integration service fees, consultancy service charges, interest income and sales of equipment income received or receivable from associates	a	44	**24**
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder	a	332	**302**
Telecommunications service fees and rental charges paid or payable to joint ventures	a	299	**302**
Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder	a	149	**144**
Consideration paid or payable for the purchase of equipment from an associate	a	150	**–**
Key management compensation	b	72	**84**

a. These transactions were carried out after negotiations between the Group 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.

b. Details of key management compensation

In HK$ million	The Group 2013	2014
Salaries and other short-term employee benefits	56	**56**
Share-based compensation	14	**25**
Post-employment benefits	2	**3**
	72	**84**

4 RELATED PARTY TRANSACTIONS *(CONTINUED)*

c. Amounts due from/(to) related companies

Other than as specified in notes 22 and 23, balances with related parties are unsecured and non-interest bearing, and have no fixed repayment terms.

5 TURNOVER

In HK$ million	The Group 2013	**2014**
Telecommunications and other service revenue	24,842	**29,823**
Amounts received and receivable in respect of goods sold	1,920	**3,260**
Amounts received and receivable in respect of properties sold	283	**–**
Amounts received and receivable from rental of investment properties	272	**194**
	27,317	**33,277**

6 SEGMENT INFORMATION

The CODM is the Group's senior executive management. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources and the segment information is reported below in accordance with this internal reporting.

The CODM considers the business primarily from the product perspective. From a product perspective, management assesses the performance of the following segments:

- HKT Limited ("HKT") is Hong Kong's premier telecommunications service provider. The principal activities of HKT and its subsidiaries 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.

- Media Business includes interactive pay-TV service, Internet portal multimedia entertainment platform and the Group's directories operations in Hong Kong and mainland China and other parts of the world.

- Solutions Business offers Information and Communications Technologies services and solutions in Hong Kong, Macau and mainland China.

- PCPD covers the Group's property portfolio in Hong Kong, mainland China and elsewhere in Asia.

- Other Businesses include the Group's wireless broadband business in the United Kingdom and all corporate support functions.

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization ("EBITDA"). The 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, interests in leasehold land and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures.

Segment revenue, expense and segment performance include transactions between segments. Inter-segment pricing is based on similar terms to 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.

6 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	2013						
	HKT	Media Business	Solutions Business	Other Businesses	PCPD	Eliminations	Consolidated
REVENUE							
External revenue	22,429	1,849	2,324	58	657	–	27,317
Inter-segment revenue *(note a)*	403	1,171	637	–	17	(2,228)	–
Total revenue	22,832	3,020	2,961	58	674	(2,228)	27,317
RESULTS							
EBITDA	7,901	508	520	(554)	(96)	(246)	8,033
OTHER INFORMATION							
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	2,025	201	250	124	7	–	2,607

In HK$ million	**2014**						
	HKT	**Media Business**	**Solutions Business**	**Other Businesses**	**PCPD**	**Eliminations**	**Consolidated**
REVENUE							
External revenue	**28,493**	**2,118**	**2,319**	**44**	**303**	**–**	**33,277**
Inter-segment revenue *(note a)*	**330**	**1,113**	**1,051**	**–**	**12**	**(2,506)**	**–**
Total revenue	**28,823**	**3,231**	**3,370**	**44**	**315**	**(2,506)**	**33,277**
RESULTS							
EBITDA	**10,242**	**452**	**622**	**(630)**	**(166)**	**(180)**	**10,340**
OTHER INFORMATION							
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	**2,529**	**160**	**332**	**180**	**21**	**–**	**3,222**

a. The inter-segment revenue included certain sales by respective business segment to external customers through the other segment's billing platform.

6 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	The Group 2013	2014
Total segment EBITDA	8,033	**10,340**
Gain/(Loss) on disposal of property, plant and equipment, net	9	**(2)**
Depreciation and amortization	(4,571)	**(6,303)**
Other gains, net	685	**2,717**
Interest income	80	**90**
Finance costs	(1,111)	**(1,418)**
Share of results of associates and joint ventures	140	**50**
Profit before income tax	3,265	**5,474**

The following table sets out information about the geographical location of the Group's 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	Revenue from external customers 2013	2014
Hong Kong (place of domicile)	20,304	**25,796**
Mainland China (excluding Hong Kong), Macau and Taiwan, China	2,116	**2,222**
Others	4,897	**5,259**
	27,317	**33,277**

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK$42,685 million (2013: HK$20,694 million), and the total of these non-current assets located in other countries is HK$7,149 million (2013: HK$13,812 million).

7 OTHER GAINS, NET

In HK$ million	The Group 2013	2014
Gain on disposal of subsidiaries *(notes 35(c) & 42)*	–	**2,112**
Fair value gains on investment properties	631	**656**
Net gains on cash flow hedging instruments transferred from equity	9	**2**
Net gains on fair value hedging instruments	42	**47**
Net gains from return of investment in available-for-sale financial assets	64	**33**
Net realized gains on disposal of available-for-sale financial assets	–	**1**
Recovery of impairment loss on an interest in a joint venture	22	**–**
Provision for impairment of an interest in an associate	–	**(52)**
Provision for impairment of available-for-sale financial assets	(78)	**(12)**
Provision for impairment of property held for development	–	**(84)**
Others	(5)	**14**
	685	**2,717**

8 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	The Group 2013	**2014**
Retirement costs for directors	2	**2**
Retirement costs for other staff under defined contribution and defined benefit retirement schemes	282	**221**
	284	**223**
Share-based compensation expenses	45	**96**
Salaries, bonuses and other benefits	2,406	**2,794**
	2,735	**3,113**

b. Other items

In HK$ million	The Group 2013	**2014**
Crediting:		
Gain on disposal of property, plant and equipment, net	9	**–**
Gross rental income	272	**194**
Less: Outgoings	(42)	**(29)**
Write-back of provision for inventory obsolescence	10	**–**
Exchange gains, net	12	**7**
Less: Cash flow hedges: transferred from equity	(34)	**(3)**
Less: Fair value hedges: transferred to finance costs	3	**(4)**
Charging:		
Impairment loss for doubtful debts	149	**187**
Provision for inventory obsolescence	–	**10**
Depreciation of property, plant and equipment	2,347	**3,408**
Amortization of land lease premium		
– interests in leasehold land	24	**22**
Amortization of intangible assets	2,200	**2,873**
Cost of inventories sold	1,939	**3,187**
Cost of properties sold	223	**–**
Cost of sales, excluding inventories and properties sold	10,949	**11,964**
Loss on disposal of property, plant and equipment, net	–	**2**
Auditors' remuneration	29	**30**
Operating lease rental		
– equipment	85	**105**
– other assets (including property rentals)	1,014	**1,498**

9 FINANCE COSTS

In HK$ million	The Group 2013	2014
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	412	**746**
Other borrowings wholly repayable within 5 years	467	**371**
Other borrowings not wholly repayable within 5 years	199	**216**
Notional accretion on carrier licence fee liabilities	66	**116**
Other borrowing costs	20	**39**
Cash flow hedges: transferred from equity	1	**1**
Losses/(Gains) on fair value hedges *(note a)*	6	**(2)**
Fair value hedges: exchange difference transferred from exchange (gains)/losses, net	(3)	**4**
Adjustment of borrowings attributable to foreign currency risk	3	**(4)**
	1,171	**1,487**
Interest capitalized in property, plant and equipment and investment properties *(note b)*	(60)	**(69)**
	1,111	**1,418**

a. Gains on fair value hedges represent fair value gains on derivative financial instruments on fair value hedges of HK$464 million (2013: loss of HK$748 million) and fair value debit adjustment of borrowings attributable to interest rate risk of HK$462 million (2013: credit of HK$742 million).

b. The capitalization rate used to determine the amount of interest eligible for capitalization for the year ranged from 3.63% to 3.77% (2013: 3.68% to 4.50%).

10 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

a. Directors' emoluments – cash and cash equivalents paid/payable

In HK$ million	The Group 2013											
	Directors' fees		Salaries, allowances and benefits in kind		Bonuses[1]		Retirement scheme contributions		Share-based compensation[2]		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD
Executive directors												
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–	–	–	–	–
Chan Ching Cheong, George	–	–	5.90	–	2.28	–	0.01	–	4.06	–	12.25	–
Hui Hon Hing, Susanna	–	–	9.71	–	7.20	–	0.76	–	–	–	17.67	–
Lee Chi Hong, Robert	–	–	–	8.09	–	6.05	–	0.85	–	–	–	14.99
Non-executive directors												
Sir David Ford	–	–	1.26	–	–	–	–	–	–	–	1.26	–
Lu Yimin	0.22[3]	–	–	–	–	–	–	–	–	–	0.22	–
Li Fushen	0.22[4]	–	–	–	–	–	–	–	–	–	0.22	–
Li Gang	0.22[5]	–	–	–	–	–	–	–	–	–	0.22	–
Tse Sze Wing, Edmund	0.22	–	–	–	–	–	–	–	–	–	0.22	–
Wei Zhe, David	0.22	–	–	–	–	–	–	–	–	–	0.22	–
Independent non-executive directors												
Dr The Hon Sir David Li Kwok Po	0.22	–	–	–	–	–	–	–	–	–	0.22	–
Aman Mehta	0.55[6]	–	0.53	–	–	–	–	–	–	–	1.08	–
Frances Waikwun Wong	0.22	–	–	–	–	–	–	–	–	–	0.22	–
Bryce Wayne Lee	0.22	–	0.40	–	–	–	–	–	–	–	0.62	–
Lars Eric Nils Rodert	0.22	–	0.53	–	–	–	–	–	–	–	0.75	–
David Christopher Chance[7]	0.03[8]	–	0.13	–	–	–	–	–	–	–	0.16	–
	2.56	–	18.46	8.09	9.48	6.05	0.77	0.85	4.06	–	35.33	14.99

Notes:

1 Bonus amounts shown above represent the portion of 2012 bonuses that were paid in 2013.

2 Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2013 for respective directors under the share award schemes.

3 Fee receivable as a non-executive director in 2013 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, a substantial shareholder of the Company.

4 Fee receivable as a non-executive director in 2013 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, a substantial shareholder of the Company.

5 Fee receivable as a non-executive director in 2013 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Gang and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

6 Includes HK$109,200 fee as Chairman of Nomination Committee, HK$109,200 fee as Chairman of Audit Committee and HK$109,200 fee as Chairman of Remuneration Committee.

7 Appointed as an independent non-executive director with effect from November 28, 2013.

8 Includes HK$10,172 fee as independent non-executive Chairman of PCCW Media Limited, a wholly-owned subsidiary of the Company.

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

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

In HK$ million	The Group 2014											
	Directors' fees		Salaries, allowances and benefits in kind		Bonuses		Retirement scheme contributions		Share-based compensation[1]		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD
Executive directors												
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–	–	–	–	–
Srinivas Bangalore Gangaiah[2]	–	–	4.91	–	1.52[3]	–	0.50	–	–	–	6.93	–
Chan Ching Cheong, George[4]	–	–	0.92	–	–	–	0.01	–	7.22	–	8.15	–
Hui Hon Hing, Susanna	–	–	10.88	–	3.45[5]	–	0.87	–	5.38	–	20.58	–
Lee Chi Hong, Robert	–	–	–	9.17	–	4.50[5]	–	0.96	–	–	–	14.63
Non-executive directors												
Sir David Ford	–	–	1.33	–	–	–	–	–	–	–	1.33	–
Lu Yimin	0.22[6]	–	–	–	–	–	–	–	–	–	0.22	–
Li Fushen	0.22[7]	–	–	–	–	–	–	–	–	–	0.22	–
Zhang Junan[8]	0.09[9]	–	–	–	–	–	–	–	–	–	0.09	–
Li Gang[10]	0.13[11]	–	–	–	–	–	–	–	–	–	0.13	–
Tse Sze Wing, Edmund	0.22	–	–	–	–	–	–	–	–	–	0.22	–
Wei Zhe, David	0.22	–	–	–	–	–	–	–	–	–	0.22	–
Independent non-executive directors												
Dr The Hon Sir David Li Kwok Po	0.22	–	–	–	–	–	–	–	–	–	0.22	–
Aman Mehta	0.55[12]	–	0.53	–	–	–	–	–	–	–	1.08	–
Frances Waikwun Wong	0.22	–	–	–	–	–	–	–	–	–	0.22	–
Bryce Wayne Lee	0.22	–	0.26	–	–	–	–	–	–	–	0.48	–
Lars Eric Nils Rodert	0.22	–	0.40	–	–	–	–	–	–	–	0.62	–
David Christopher Chance	0.33[13]	–	0.53	–	–	–	–	–	–	–	0.86	–
	2.86	–	19.76	9.17	4.97	4.50	1.38	0.96	12.60	–	41.57	14.63

Notes:

1 Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2014 for respective directors under the share award schemes.
2 Appointed as an executive director with effect from July 14, 2014.
3 Sign-on bonus paid in July 2014.
4 Retired as an executive director with effect from the end of July 13, 2014.
5 Bonus amounts shown above represent the portion of 2013 bonuses that were paid in 2014.
6 Fee receivable as a non-executive director in 2014 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, a substantial shareholder of the Company.
7 Fee receivable as a non-executive director in 2014 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, a substantial shareholder of the Company.
8 Appointed as a non-executive director with effect from August 6, 2014.
9 Fee receivable as a non-executive director in 2014 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zhang Junan and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
10 Resigned as a non-executive director with effect from August 6, 2014.
11 Fee receivable as a non-executive director in 2014 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Gang and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
12 Includes HK$109,200 fee as Chairman of Nomination Committee, HK$109,200 fee as Chairman of Audit Committee and HK$109,200 fee as Chairman of Remuneration Committee.
13 Includes HK$109,200 fee as independent non-executive Chairman of PCCW Media Limited, a wholly-owned subsidiary of the Company.

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

b. Individuals with highest emoluments

i. Of the five individuals with the highest emoluments, two (2013: three) are directors of the Company whose emoluments are disclosed in note 10(a). The emoluments in respect of the three (2013: two) non-director individuals were as follows:

In HK$ million	The Group 2013	**2014**
Salaries, share-based compensation, allowances and benefits in kind	29.41	**45.52**
Bonuses	14.06	**21.99**
Retirement scheme contributions	2.28	**2.73**
	45.75	**70.24**

ii. The emoluments of the three (2013: two) non-director individuals were within the following emolument ranges:

	The Group Number of individuals 2013	**2014**
HK$12,500,001 – HK$13,000,000	–	**1**
HK$14,000,001 – HK$14,500,000	1	**–**
HK$15,500,001 – HK$16,000,000	–	**1**
HK$31,500,001 – HK$32,000,000	1	**–**
HK$41,500,001 – HK$42,000,000	–	**1**
	2	**3**

11 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	The Group 2013	**2014**
Hong Kong profits tax		
– provision for current year	417	**381**
– over provision in respect of prior years	(175)	**(441)**
Overseas tax		
– provision for current year	52	**737**
– (over)/under provision in respect of prior years	(2)	**5**
Movement of deferred income tax *(note 33(a))*	(82)	**121**
	210	**803**

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year.

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

11 INCOME TAX *(CONTINUED)*

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

In HK$ million	The Group 2013	2014
Profit before income tax	3,265	**5,474**
Notional tax on profit before income tax, calculated at applicable tax rate	539	**903**
Effect of different tax rates of subsidiaries operating overseas	80	**(265)**
Income not subject to tax	(20)	**(34)**
Expenses not deductible for tax purposes	232	**190**
Tax losses not recognized	84	**127**
Over provision in prior years, net	(177)	**(436)**
Utilization of previously unrecognized tax losses	(102)	**(309)**
Recognition of previously unrecognized tax losses	(443)	**(16)**
Capital gain tax on disposal of subsidiaries	–	**651**
Recognition of previously unrecognized temporary differences	40	**–**
Income not subject to tax for associates and joint ventures	(23)	**(8)**
Income tax expense	210	**803**

The change in the effective tax rate for the year ended December 31, 2014 comparing with 2013 was mainly due to the one-off effect of the recognition of previously unrecognized tax losses in 2013.

12 PROFIT OR LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit of HK$3,564 million (2013: loss of HK$160 million) attributable to equity holders of the Company was dealt with in the financial statements of the Company.

13 DIVIDENDS

In HK$ million	2013	2014
Interim dividend declared and paid in respect of current year of 6.99 HK cents (2013: 6.35 HK cents) per ordinary share	462	**517**
Less: dividend for PCCW Shares held by share award schemes	(2)	**(2)**
	460	**515**
Final dividend declared in respect of previous financial year, approved and paid during the year of 13.85 HK cents (2013: 13.55 HK cents) per ordinary share	985	**1,009**
Less: dividend for PCCW Shares held by share award schemes	(4)	**(3)**
	981	**1,006**
	1,441	**1,521**
Final dividend proposed after the end of the reporting period of 13.21 HK cents (2013: 13.85 HK cents) per ordinary share	1,007	**985**

a. The final dividend proposed after the end of the reporting period has not been recognized as a liability as at the end of the reporting period.

b. The 2014 final dividend will be payable in cash with a scrip dividend alternative subject to (i) shareholders' approval of the final dividend at the annual general meeting; and (ii) the Stock Exchange granting the listing of and permission to deal in the new shares to be issued.

c. For details of shares issued in lieu of cash dividends, please refer to note 29(c).

14 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the following data:

	2013	**2014**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	1,885	**3,310**
Number of shares		
Weighted average number of ordinary shares	7,272,294,654	**7,353,412,940**
Effect of PCCW Shares held under the Company's share award schemes	(16,759,217)	**(20,355,930)**
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,255,535,437	**7,333,057,010**
Effect of PCCW Shares awarded under the Company's share award schemes	9,811,488	**13,894,498**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,265,346,925	**7,346,951,508**

15 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Group 2013					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,334	12,105	15,818	11,548	1,648	42,453
Additions	4	630	147	570	1,248	2,599
Additions upon business combinations *(note 41)*	–	–	–	1	–	1
Effects of consolidation of a former associate	–	–	–	2	–	2
Transfers	–	348	627	366	(1,341)	–
Disposals	(13)	(373)	(35)	(314)	–	(735)
Exchange differences	(23)	3	(75)	(18)	–	(113)
End of year	1,302	12,713	16,482	12,155	1,555	44,207
Accumulated depreciation and impairment						
Beginning of year	410	8,934	8,679	8,889	7	26,919
Charge for the year	48	829	804	666	–	2,347
Disposals	(6)	(373)	(35)	(309)	–	(723)
Exchange differences	(3)	4	(16)	(14)	–	(29)
End of year	449	9,394	9,432	9,232	7	28,514
Net book value						
End of year	853	3,319	7,050	2,923	1,548	15,693
Beginning of year	924	3,171	7,139	2,659	1,641	15,534

15 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	The Group 2014					
	Land and buildings	**Exchange equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	**1,302**	**12,713**	**16,482**	**12,155**	**1,555**	**44,207**
Additions	**6**	**723**	**752**	**900**	**841**	**3,222**
Additions upon business combinations	**392**	**694**	**561**	**225**	**121**	**1,993**
Disposal of interests in subsidiaries *(note 42)*	**(50)**	**–**	**–**	**(139)**	**–**	**(189)**
Transfers	**–**	**440**	**484**	**259**	**(1,183)**	**–**
Disposals	**–**	**(402)**	**(21)**	**(116)**	**–**	**(539)**
Exchange differences	**(14)**	**(80)**	**(88)**	**(12)**	**–**	**(194)**
End of year	**1,636**	**14,088**	**18,170**	**13,272**	**1,334**	**48,500**
Accumulated depreciation and impairment						
Beginning of year	**449**	**9,394**	**9,432**	**9,232**	**7**	**28,514**
Charge for the year	**54**	**1,330**	**1,225**	**799**	**–**	**3,408**
Disposal of interests in subsidiaries *(note 42)*	**(22)**	**–**	**–**	**(100)**	**–**	**(122)**
Transfers	**–**	**–**	**–**	**7**	**(7)**	**–**
Disposals	**–**	**(402)**	**(16)**	**(112)**	**–**	**(530)**
Exchange differences	**(2)**	**(54)**	**(39)**	**(12)**	**–**	**(107)**
End of year	**479**	**10,268**	**10,602**	**9,814**	**–**	**31,163**
Net book value						
End of year	**1,157**	**3,820**	**7,568**	**3,458**	**1,334**	**17,337**
Beginning of year	**853**	**3,319**	**7,050**	**2,923**	**1,548**	**15,693**

No property, plant and equipment were pledged as security for bank borrowings of the Group as at December 31, 2014. Certain property, plant and equipment with an aggregate carrying value of approximately HK$39 million were pledged as security for certain bank borrowings of the Group as at December 31, 2013. Please refer to note 40 for details of the Group's bank loan facilities.

The depreciation charge for the year is included in "General and administrative expenses" in the consolidated income statement.

The carrying amount of land and buildings of the Group by the lease term of the land is analyzed as follows:

In HK$ million	The Group 2013	**2014**
Held in Hong Kong		
On long-term lease (over 50 years)	90	**87**
On medium-term lease (10–50 years)	643	**989**
Held outside Hong Kong		
Freehold	86	**77**
Leasehold		
On medium-term lease (10–50 years)	34	**4**
	853	**1,157**

16 INVESTMENT PROPERTIES

In HK$ million	The Group 2013	**2014**
Beginning of year	5,804	**8,436**
Addition	2,071	**–**
Disposal of interests in subsidiaries *(note 42)*	–	**(7,182)**
Capitalized subsequent expenditures, net	25	**84**
Exchange differences	(95)	**(116)**
Fair value gains	631	**656**
End of year	8,436	**1,878**

The change in unrealized gains of the investment properties in 2014 amounted to HK$656 million (2013: HK$631 million) and was credited to the consolidated income statement as "Fair value gains on investment properties".

In the consolidated income statement, cost of sales includes direct operating expenses of HK$23 million (2013: HK$36 million) that relating to investment properties generate rental income while direct operating expenses of HK$14 million (2013: HK$21 million) relate to investment properties that were unlet.

a. Estimation of fair values and valuation techniques

The tables below analyze non-financial assets carried at fair value as at December 31, 2013 and 2014. 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 included within level 1 that are observable for the asset or liability, 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).

In HK$ million	The Group 2013			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties				
Mainland China	–	–	6,605	6,605
Indonesia	–	–	1,805	1,805
Hong Kong	–	26	–	26
	–	26	8,410	8,436

In HK$ million	The Group **2014**			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Investment properties				
Indonesia	**–**	**–**	**1,848**	**1,848**
Hong Kong	**–**	**30**	**–**	**30**
	–	**30**	**1,848**	**1,878**

16 INVESTMENT PROPERTIES *(CONTINUED)*

a. Estimation of fair values and valuation techniques *(continued)*

The fair values of investment properties in Hong Kong included in level 2 have been estimated using current prices in an active market for similar locations and type.

During the year ended December 31, 2014, there were no transfers between different levels.

Information about level 3 fair value measurements

Investment properties	Valuation technique	The Group 2013 Unobservable inputs	Rate
Mainland China	Income capitalization approach	Market yield	5.5% to 6.0%
		Monthly gross market rent	RMB200/sq.m. to RMB890/sq.m.
Indonesia	Residual value approach	Price per net saleable area	US$5,750/sq.m. to US$6,450/sq.m.
		Construction cost	US$1,300/sq.m. to US$1,684/sq.m.

Information about level 3 fair value measurements

Investment properties	**Valuation technique**	The Group **2014** **Unobservable inputs**	**Rate**
Indonesia	**Residual value approach**	**Price per net saleable area**	**US$5,950/sq.m. to US$6,690/sq.m.**
		Construction cost	**US$1,850/sq.m. to US$2,450/sq.m.**

The fair value of investment property located in mainland China as at December 31, 2013 is determined by an independent professional valuer, who is a fellow of the Royal Institution of Chartered Surveyors, using income capitalization approach. The valuation takes into account expected market rental and market yield. Certain furnished equipment and furniture amounted to HK$38 million as at December 31, 2013 included in the valuation of the investment property is recognized separately as property, plant and equipment. The investment property has been disposed of during the year ended December 31, 2014 (see note 42(a)).

On July 24, 2013, the Group has completed the acquisition of a plot of land for the development of a Premium Grade A office building in Jakarta, Indonesia. The property located in Indonesia is held by the Group for investment which the construction is in progress. Management has performed the valuation which the fair value of the property is determined by using residual value approach with reference to the sale evidence as available in the market and allowed for the outstanding development costs including mainly construction cost, sales and marketing cost and finance cost. A significant increase/decrease in the price and a significant decrease/increase in construction cost would result in a significant increase/decrease in the fair value of the investment properties. In addition, the exchange rate movement between Indonesian Rupiah and the United States dollars could also affect the price and construction costs.

b. The carrying amount of investment properties of the Group by lease term of the land is analyzed as follows:

In HK$ million	The Group 2013	**2014**
Held in Hong Kong		
On medium-term lease (10–50 years)	26	**30**
Held outside Hong Kong		
On long-term lease (over 50 years)	1,239	**–**
On medium-term lease (10–50 years)	7,171	**1,848**
	8,436	**1,878**

16 INVESTMENT PROPERTIES *(CONTINUED)*

c. The Group leases out properties under operating leases. The majority of the leases typically run for periods of 2 to 15 years. None of the leases include contingent rentals.

d. As at December 31, 2014, the total future minimum lease receipts in respect of investment properties under non-cancellable operating leases were receivables as follows:

In HK$ million	The Group 2013	**2014**
Within 1 year	254	**44**
After 1 year but within 5 years	374	**66**
After 5 years	38	**16**
	666	**126**

e. Investment properties with a carrying value of approximately HK$1,848 million (2013: HK$6,603 million) were pledged as security for certain bank borrowings of the Group as at December 31, 2014. Please refer to note 40 for details of the Group's bank loan facilities.

17 INTERESTS IN LEASEHOLD LAND

In HK$ million	The Group 2013	**2014**
Cost		
Beginning of year	827	**835**
Additions	8	**–**
Disposal of interests in subsidiaries *(note 42)*	–	**(15)**
End of year	835	**820**
Accumulated amortization		
Beginning of year	315	**339**
Charge for the year	24	**22**
Disposal of interests in subsidiaries *(note 42)*	–	**(5)**
End of year	339	**356**
Net book value		
End of year	496	**464**
Beginning of year	512	**496**

17 INTERESTS IN LEASEHOLD LAND *(CONTINUED)*

The carrying amount of interests in leasehold land of the Group is analyzed by lease term as follows:

In HK$ million	The Group	
	2013	**2014**
Held in Hong Kong		
On long-term lease (over 50 years)	80	**77**
On medium-term lease (10–50 years)	403	**383**
Held outside Hong Kong		
On medium-term lease (10–50 years)	13	**4**
	496	**464**

As at December 31, 2014, there was no leasehold land included in properties under development (2013: nil).

18 PROPERTIES HELD FOR/UNDER DEVELOPMENT

In HK$ million	The Group	
	2013	**2014**
Properties under development *(note a)*	379	**329**
Properties held for development *(note b)*	645	**566**
Properties held for/under development classified as non-current assets	1,024	**895**

a. Properties under development represent freehold land in Japan. Management has performed assessments on the recoverable amount of the development project in Japan recognized under properties under development as at December 31, 2014. The valuation is based on the discounted cash flow forecast of the development project which involves the use of various estimates and assumptions such as selling price, construction costs and discount rate. Changes of the assumptions adopted in the valuation may result in a change in future estimates of the recoverable amount of the development project.

b. Properties held for development represent freehold land in Thailand, which the Group intends for future development projects. Same as previous years, management has performed assessments on the recoverable amount of the property interest together with the costs of improvements spent on the land in Thailand recognized under properties held for development, with reference to the advice of an external valuer. The valuation is based on the direct comparison approach which involves the use of various market comparables, estimates and assumptions. Based on the impairment assessment, the recoverable amount as at December 31, 2014 is approximately HK$566 million and thus a provision for impairment of HK$84 million was recognized for the year ended December 31, 2014. Changes of the assumptions adopted in the valuation may result in a change in future estimates of the recoverable amount of the development project.

19 GOODWILL

In HK$ million	The Group 2013	2014
Cost		
Beginning of year	3,537	**3,635**
Additions upon business combinations	97	**13,627**
Exchange differences	1	**(21)**
End of year	3,635	**17,241**
Accumulated impairment		
Beginning and end of year	166	**166**
Carrying amount		
End of year	3,469	**17,075**
Beginning of year	3,371	**3,469**

Impairment tests for CGUs containing goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segment as follows:

In HK$ million	The Group 2013	2014
HKT		
Mobile	1,939	**15,554**
PCCW Global	735	**734**
IP BPO Holdings Pte. Ltd. and its subsidiaries	205	**201**
	2,879	**16,489**
Media Business	162	**162**
Solutions Business	271	**271**
PCPD	91	**91**
Others		
UK Broadband Limited and its subsidiaries	62	**58**
Others	4	**4**
	66	**62**
Total	3,469	**17,075**

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 to twelve-year period. Cash flows beyond the projection 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.

19 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill *(continued)*

The key assumptions used for value-in-use calculations in 2013 and 2014 are as follows:

	2013 Gross margin	2013 Terminal growth rate	2013 Discount rate	**2014 Gross margin**	**2014 Terminal growth rate**	**2014 Discount rate**
Mobile	81%	2%	16%	**70%**	**2%**	**11%**
PCCW Global	19%	3%	10%	**21%**	**3%**	**11%**
IP BPO Holdings Pte. Ltd. and its subsidiaries	35%	2%	13%	**31%**	**2%**	**12%**
Media Business	46%	2%	15%	**50%**	**2%**	**14%**
Solutions Business	26%	2%	12%	**26%**	**2%**	**11%**

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

There was no indication of impairment arising from the review on goodwill as at October 31, 2014.

Management determined budgeted gross margin based on past performance and its expectations for market development. The weighted average 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.

20 INTANGIBLE ASSETS

In HK$ million	The Group 2013								
	Trademarks	Content licence and capitalized programme costs	Wireless broadband licences	Carrier licences	Customer acquisition costs	Customer base *(note a)*	Software	Others *(note a)*	Total
Cost									
Beginning of year	1,589	126	342	858	3,207	47	347	42	6,558
Additions	–	189	83	98	1,626	–	339	6	2,341
Effects of consolidation of a former associate	–	30	–	–	–	–	–	–	30
Write-off	–	(21)	–	–	(1,608)	–	–	(3)	(1,632)
Exchange differences	6	–	11	–	–	5	–	–	22
End of year	1,595	324	436	956	3,225	52	686	45	7,319
Accumulated amortization and impairment									
Beginning of year	938	80	190	285	1,646	–	23	11	3,173
Charge for the year *(note b)*	80	134	26	148	1,759	8	45	–	2,200
Write-off	–	(21)	–	–	(1,608)	–	–	(3)	(1,632)
Exchange differences	–	–	4	–	–	–	–	–	4
End of year	1,018	193	220	433	1,797	8	68	8	3,745
Net book value									
End of year	577	131	216	523	1,428	44	618	37	3,574
Beginning of year	651	46	152	573	1,561	47	324	31	3,385

20 INTANGIBLE ASSETS *(CONTINUED)*

In HK$ million	The Group 2014								
	Trademarks	Content licence and capitalized programme costs	Wireless broadband licences	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost									
Beginning of year	1,595	324	436	956	3,225	52	686	45	7,319
Additions	–	192	–	108	2,558	–	296	4	3,158
Additions upon business combinations	1,343	–	–	2,332	–	2,716	–	–	6,391
Disposal of interests in subsidiaries *(note 42)*	–	–	–	–	–	–	–	(31)	(31)
Write-off	–	(33)	–	–	(1,796)	–	–	–	(1,829)
Exchange differences	(9)	–	(24)	–	–	(6)	–	–	(39)
End of year	2,929	483	412	3,396	3,987	2,762	982	18	14,969
Accumulated amortization and impairment									
Beginning of year	1,018	193	220	433	1,797	8	68	8	3,745
Charge for the year *(note b)*	128	160	27	353	1,827	307	71	–	2,873
Write-off	–	(33)	–	–	(1,796)	–	–	–	(1,829)
Exchange differences	(1)	–	(14)	–	–	–	–	–	(15)
End of year	1,145	320	233	786	1,828	315	139	8	4,774
Net book value									
End of year	1,784	163	179	2,610	2,159	2,447	843	10	10,195
Beginning of year	577	131	216	523	1,428	44	618	37	3,574

a. During the year ended December 31, 2014, the Group has completed an internal reorganization in connection with the acquisition of CSL Holdings Limited (formerly known as CSL New World Mobility Limited) and its subsidiaries (together the "CSL Group"). As a result, management has made changes to the Group's internal reporting that caused changes to intangible assets presentation. The prior year information has been restated to conform with the revised presentation.

b. The amortization charge for the year is included in "General and administrative expenses" in the consolidated income statement.

21 INTERESTS IN SUBSIDIARIES

In HK$ million	The Company 2013	**2014**
Unlisted shares, at cost	132,425	**137,400**
Capital contribution in respect of employee share-based compensation	276	**276**
	132,701	**137,676**
Less: Provision for impairment in value	(120,612)	**(120,604)**
	12,089	**17,072**

21 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

The provision for impairment in value of approximately HK$120,604 million (2013: HK$120,612 million) relates to certain subsidiaries of the Company.

Dividends from the People's Republic of China (the "PRC") entities accounted for as subsidiaries will be declared based on the profits in the statutory financial statements of these PRC entities which are prepared using accounting principles generally accepted in the PRC. Such profits may be different from the amounts reported under HKFRSs.

a. As at December 31, 2014, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Interest held by non-controlling interests
HKT Limited	Cayman Islands/ Hong Kong	Investment holding	HK$3,785,871.167 ordinary shares and HK$3,785,871.167 preference shares	–	63.1%	36.9%
HKT Group Holdings Limited[3] ("HKTGH")	Cayman Islands	Investment holding	US$636,000,005	–	63.1%	36.9%
Hong Kong Telecommunications (HKT) Limited[3] ("HKTL")	Hong Kong	Provision of telecommunications services	HK$2,488,200,001	–	63.1%	36.9%
HKT Services Limited[3]	Hong Kong	Provision of management services to group companies	HK$1	–	63.1%	36.9%
Esencia Investments Limited	British Virgin Islands	Investment holding	US$1	–	100%	–
Great Epoch Holdings Limited	British Virgin Islands	Investment holding	US$1	–	100%	–
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support services, electronics and communications engineering, products and solutions	HK$700,002	–	100%	–
CSL Mobile Limited[3] (formerly known as PCCW Mobile HK Limited)	Hong Kong	Provision of mobile services to its customers, which is procured from HKTL, and the sale of mobile phones and accessories	HK$7,900,280,100 ordinary shares and HK$1,254,000,000 non-voting deferred shares	–	63.1%	36.9%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services, the sale of advertising in various telephone directories, the publishing of those directories in Hong Kong and the sale of advertising on the Internet	HK$5,507,310,269 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares	–	100%	–
PC Music Holdings Limited	British Virgin Islands	Investment holding	US$11	–	100%	–
PCCW Productions Limited	Hong Kong	Production of content for different media	HK$2	–	100%	–
PCCW Teleservices (Hong Kong) Limited[3]	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$350,000,002	–	63.1%	36.9%
PCCW Teleservices Operations (Hong Kong) Limited[3]	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	63.1%	36.9%
廣州電盈綜合客戶服務技術發展有限公司[1, 3] (PCCW Customer Management Technology and Services (Guangzhou) Limited*)	The PRC	Customer service and consultancy	HK$93,240,000	–	63.1%	36.9%
PCCW (Macau), Limitada[2, 3]	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	–	47.3%	52.7%
PCCW Teleservices (US), Inc.[3]	Nebraska, U.S.	Telemarketing and direct marketing services	US$1,169	–	63.1%	36.9%

(Amount expressed in Hong Kong dollars unless otherwise stated)

21 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2014, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Interest held by non-controlling interests
PCCW Global B.V.[3]	Netherlands/France	Sales, distribution and marketing of integrated global communications solutions and products of PCCW Global Limited and PCCW Global (HK) Limited	EUR18,000	–	63.1%	36.9%
PCCW Global (HK) Limited[3]	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK$10	–	63.1%	36.9%
PCCW Global Limited[3]	Hong Kong/Dubai Technology and Media Free Zone	Provision of network-based telecommunications services	HK$167,743,479	–	63.1%	36.9%
PCCW Global, Inc.[3]	Delaware, U.S.	Supply of broadband internet access solutions and web services	US$18.01	–	63.1%	36.9%
HKT Global (Singapore) Pte. Ltd.[3]	Singapore	Provision of telecommunications solutions related services	S$60,956,485.64	–	63.1%	36.9%
Gateway Global Communications Limited[3]	United Kingdom	Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies	GBP1	–	63.1%	36.9%
電訊盈科(北京)有限公司[1] (PCCW (Beijing) Limited*)	The PRC	Systems integration, consulting and informatization project	US$10,250,000	–	100%	–
PCCW Solutions Limited	Hong Kong	Provision of computer services and IP/IT related value-added services to business customers	HK$36,294,067.89	–	100%	–
電訊盈科信息技術(廣州)有限公司[1] (PCCW Solutions (Guangzhou) Limited*)	The PRC	Systems integration and technology consultancy	HK$12,600,000	–	100%	–
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related value-added services to business customers	HK$2	–	100%	–
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Provision of data center services	HK$2	–	100%	–
Power Logistics Limited	Hong Kong	Logistics, printing, business process and ICT solutions	HK$100,000	–	100%	–
Pacific Century Premium Developments Limited	Bermuda/Hong Kong	Investment holding	HK$201,334,156.50	–	70.8%	29.2%
Cyber-Port Limited[4]	Hong Kong	Property development	HK$2	–	70.8%	29.2%
Talent Master Investments Limited[4]	British Virgin Islands/ Hong Kong	Property development	US$1	–	70.8%	29.2%
Nihon Harmony Resorts KK[4]	Japan	Ski operation	JPY405,000,000	–	70.8%	29.2%
Harmony TMK[4]	Japan	Property development	JPY100,000,000 specified shares and JPY4,150,000,000 preferred shares	–	70.8%	29.2%
PT Prima Bangun Investama[4]	Indonesia	Property development and management	US$26,000,000	–	70.8%	29.2%
Phang-nga Leisure Limited[2, 4]	Thailand	Property holding and leasing	THB2,000,000	–	27.6%	72.4%
Phang-nga Paradise Limited[2, 4]	Thailand	Property holding and leasing	THB2,000,000	–	27.6%	72.4%
UK Broadband Limited	United Kingdom	Public fixed wireless access licence businesses	GBP1	–	100%	–

* Unofficial company name

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

21 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2014, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Notes:

1 Represents a wholly foreign owned enterprise.

2 These companies are consolidated by the Group as the Group owns more than one half of the shareholders' voting rights and/or more than one half of the voting rights in the board of directors of these companies.

3 These companies are subsidiaries of HKT Trust and HKT, Share Stapled Units of which are listed on the Main Board of the Stock Exchange, which prepares its consolidated financial statements for HKT Trust, HKT and its subsidiaries (collectively the "HKT Group") in accordance with HKFRSs.

4 These companies are subsidiaries of PCPD, shares of which are listed on the Main Board of the Stock Exchange, which prepares its consolidated financial statements for PCPD Group in accordance with HKFRSs.

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

b. Amounts due from subsidiaries

In HK$ million	The Company 2013	**2014**
Amounts due from subsidiaries	56,944	**56,679**
Less: Provision for impairment	(40,195)	**(40,195)**
	16,749	**16,484**

Amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand except that the amounts due from certain subsidiaries totaling HK$1,552 million (2013: HK$1,450 million) which bear interest at HIBOR plus 3.14% (2013: HIBOR plus 3.14%) per annum and are repayable on demand.

c. Amount due to a subsidiary

On April 17, 2012, PCCW entered into an unsecured term loan facility with PCCW Capital No. 4 Limited up to an aggregate amount of US$300 million repayable in 10 years at a fixed rate of 5.75% per annum. As at December 31, 2014, US$300 million (2013: US$300 million) of such facility was utilized.

d. Significant restrictions

Please refer to note 25(b) for the restricted cash balance that relates to PCPD included within the consolidated financial statements which is subject to the Cyberport Project Agreement.

21 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

e. Summarized financial information on subsidiaries with material non-controlling interests

Set out below is summarized consolidated financial information for HKT Group and PCPD Group which are subsidiaries that have non-controlling interests that are material to the Group.

Summarized statements of financial position as at December 31, 2013 and 2014 are as follows:

In HK$ million	HKT Group		PCPD Group	
	2013	**2014**	2013	**2014**
Non-current assets	56,348	**77,542**	9,773	**3,129**
Current assets	9,471	**12,258**	2,564	**4,368**
Total assets	65,819	**89,800**	12,337	**7,497**
Current liabilities	(7,157)	**(14,415)**	(3,906)	**(1,748)**
Non-current liabilities	(27,857)	**(37,346)**	(2,932)	**(187)**
Net assets	30,805	**38,039**	5,499	**5,562**
Non-controlling interests	(182)	**(107)**	–	**–**
Net assets after non-controlling interests	30,623	**37,932**	5,499	**5,562**

Summarized financial information for the years ended December 31, 2013 and 2014 is as follows:

In HK$ million	HKT Group		PCPD Group	
	2013	**2014**	2013	**2014**
Turnover	22,832	**28,823**	674	**315**
Profit before income tax	2,515	**3,300**	293	**2,357**
Income tax	(16)	**(242)**	(216)	**(866)**
Profit for the year	2,499	**3,058**	77	**1,491**
Other comprehensive income/(loss)	1	**(381)**	(272)	**(1,440)**
Total comprehensive income/(loss)	2,500	**2,677**	(195)	**51**
Non-controlling interests	(39)	**(67)**	–	**–**
Total comprehensive income/(loss) after non-controlling interests	2,461	**2,610**	(195)	**51**
Dividends paid to non-controlling interests	1,011	**1,248**	–	**–**

21 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

e. Summarized financial information on subsidiaries with material non-controlling interests *(continued)*

Summarized cash flows for the years ended December 31, 2013 and 2014 are as follows:

In HK$ million	HKT Group		PCPD Group	
	2013	**2014**	2013	**2014**
Cash flows from operating activities				
Cash generated from/(used in) operations	7,460	**9,944**	34	**(174)**
Interest received	14	**20**	18	**18**
Income tax paid, net of tax refund	(331)	**(395)**	(8)	**(27)**
Net cash generated from/(used in) operating activities	7,143	**9,569**	44	**(183)**
Net cash (used in)/generated from investing activities	(4,223)	**(24,586)**	(1,454)	**6,262**
Net cash (used in)/generated from financing activities	(3,184)	**16,541**	1,437	**(4,464)**
Net (decrease)/increase in cash and cash equivalents	(264)	**1,524**	27	**1,615**
Exchange differences	(3)	**(45)**	10	**(15)**
Cash and cash equivalents at January 1,	2,401	**2,134**	829	**866**
Cash and cash equivalents at December 31,	2,134	**3,613**	866	**2,466**

The information above represents balances before inter-company eliminations and group consolidation adjustments.

The total comprehensive income after group consolidation adjustments of HKT Group for the year ended December 31, 2014 was HK$2,817 million (2013: HK$3,058 million), of which HK$1,105 million (2013: HK$1,167 million) was allocated to the non-controlling interests.

The total comprehensive income after group consolidation adjustments of PCPD Group for the year ended December 31, 2014 was HK$90 million (2013: total comprehensive loss of HK$82 million), of which an income of HK$6 million (2013: loss of HK$5 million) was allocated to the non-controlling interests.

The net assets after group consolidation adjustments of HKT Group as at December 31, 2014 were HK$4,511 million (2013: net liabilities of HK$2,983 million) and the net assets after group consolidation adjustments of PCPD Group as at December 31, 2014 were HK$5,497 million (2013: HK$5,395 million).

The total non-controlling interests as at December 31, 2014 were a credit balance of HK$2,212 million (2013: a debit balance of HK$554 million), of which a credit balance of HK$1,775 million (2013: a debit balance of HK$917 million) and a credit balance of HK$407 million (2013: HK$346 million) were attributed to HKT Group and PCPD Group, respectively.

22 INTERESTS IN ASSOCIATES

In HK$ million	The Group 2013	2014
Share of net assets of associates	513	**574**
Loans due from associates	285	**302**
Amount due from an associate	34	**34**
	832	**910**
Provision for impairment	(171)	**(223)**
	661	**687**
Investments at cost, unlisted	765	**761**

As at December 31, 2014, loans due from an associate comprised two unsecured loans totaling HK$74 million (2013: HK$74 million) which bear interest at 4% per annum (2013: 5% per annum) and repayable in 1 year, and certain secured loans totaling HK$218 million (2013: HK$167 million) which bear interest at 4% per annum (2013: 6% per annum) and repayable in 1 year.

a. As at December 31, 2014, particulars of the principal associates of the Group are as follows:

Company name	Principal place of business/place of incorporation	Principal activities	Amount of issued capital/registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
石化盈科信息技術有限責任公司 (Petro-CyberWorks Information Technology Company Limited*) ("PCITC")	The PRC	Design and development of Enterprise Resource Planning systems, and customer relationship management systems	RMB300,000,000	–	45%	Equity
東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited*) ("DJTCL")	The PRC	Provision of support service for mobile service subscription, sales of mobile phones and accessories	RMB40,000,000	–	22.1%	Equity

* Unofficial company name

PCITC is strategic to the Group's growth in its Solutions business and provides the Group with access to expertise in design and development of enterprise resources planning, logistics management, supply chain management, customer relationship management and information system supervision, consultation and testing. DJTCL is a strategic intent for the Group's growth in telecommunications business in the PRC market, providing telecommunications subscription services and sales of mobile phones and accessories.

The above associates are private companies and there are no quoted market prices available for their shares or equity.

22 INTERESTS IN ASSOCIATES *(CONTINUED)*

b. Commitments and contingent liabilities in respect of associates

As at December 31, 2014, the Group's share of its associates' commitments, based on the Group's effective interest, are as follows:

In HK$ million	The Group 2013	**2014**
Operating lease commitments		
Within 1 year	13	**10**
After 1 year but within 5 years	8	**8**
	21	**18**

The Group's contingent liabilities relating to its associates were disclosed in note 39. As at December 31, 2014, the Group's effective share of the contingent liabilities of an associate relating to performance guarantees was HK$10 million (2013: HK$12 million).

c. Summarized unaudited financial information of the Group's associates

Set out below is the summarized unaudited financial information for associates that are material to the Group and are accounted for using equity method.

Summarized unaudited financial information is as follows:

In HK$ million	PCITC As at December 31,		DJTCL As at December 31,	
	2013	**2014**	2013	**2014**
Non-current assets	566	**642**	45	**25**
Current assets	2,070	**2,169**	153	**97**
Current liabilities	(1,680)	**(1,694)**	(365)	**(389)**
Non-current liabilities	(35)	**(59)**	–	**–**

In HK$ million	PCITC For the year ended December 31,		DJTCL For the year ended December 31,	
	2013	**2014**	2013	**2014**
Turnover	2,641	**2,926**	620	**462**
Profit/(Loss) after income tax and total comprehensive income/(loss)	168	**162**	(68)	**(100)**
Dividends received from associates	5	**6**	–	**–**

The information above reflects the amounts presented in the financial statements of the associates (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

For the year ended December 31, 2014, the aggregate amount of the Group's shares of the profit after income tax, other comprehensive loss and total comprehensive income in individually immaterial associates that are accounted for using the equity method were HK$7 million (2013: HK$6 million), HK$1 million (2013: HK$1 million) and HK$6 million (2013: HK$5 million), respectively.

22 INTERESTS IN ASSOCIATES *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interests in the principal associates.

In HK$ million	PCITC		DJTCL	
	2013	**2014**	2013	**2014**
Net assets/(liabilities)				
Beginning of year	751	**921**	(96)	**(167)**
Profit/(Loss) and total comprehensive income/(loss) for the year	168	**162**	(68)	**(100)**
Exchange differences	13	**(12)**	(3)	**–**
Dividends	(11)	**(13)**	–	**–**
End of year	921	**1,058**	(167)	**(267)**
Interests in associates	45%	**45%**	35%*	**35%***
Interests in associates	414	**476**	(58)	**(93)**
Goodwill	–	**–**	24	**24**
Loans due from an associate	–	**–**	241	**292**
Provision for impairment	–	**–**	–	**(52)**
Carrying value	414	**476**	207	**171**

* The Company indirectly held a 22.1% effective interest in the equity of DJTCL as at December 31, 2013 and 2014.

As at December 31, 2014, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method was HK$40 million (2013: HK$40 million).

During the year ended December 31, 2014, the Group did not have any unrecognized share of losses of associates (2013: nil). As at December 31, 2014, the accumulated share of losses of the associates unrecognized by the Group was nil (2013: nil).

23 INTERESTS IN JOINT VENTURES

In HK$ million	The Group	
	2013	**2014**
Share of net assets of joint ventures	2,876	**2,833**
Loans due from joint ventures	544	**501**
Amounts due from joint ventures	25	**26**
	3,445	**3,360**
Provision for impairment	(2,863)	**(2,863)**
	582	**497**
Investments at cost, unlisted shares	3,657	**3,664**

Balances with joint ventures are unsecured and non-interest bearing, and have no fixed terms of repayment except that the loan due from a joint venture of HK$478 million (2013: HK$524 million) bears interest at HIBOR plus 3% (2013: HIBOR plus 3%) per annum with no fixed terms of repayment and the loan due from a joint venture of HK$15 million (2013: HK$12 million) bears interest at 4% (2013: 4%) per annum and repayable over two years but not exceeding five years, respectively.

23 INTERESTS IN JOINT VENTURES *(CONTINUED)*

a. As at December 31, 2014, particulars of the principal joint venture of the Group are as follows:

Company name	Principal place of business/place of incorporation	Principal activities	Amount of issued capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	31.5%	Equity

GBL is a strategic partnership for the Group, providing access to advance connectivity services in Hong Kong for the development of mobile business.

The principal joint venture is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of joint ventures

As at December 31, 2014, the Group's share of its joint ventures' commitments, based on the Group's effective interest, are as follows:

In HK$ million	The Group 2013	The Group **2014**
Commitment to provide funding	83	**71**

In HK$ million	The Group 2013	The Group **2014**
Operating lease commitments		
Within 1 year	2	**2**
After 1 year but within 5 years	4	**3**
	6	**5**

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2014, the Group's effective share of contingent liabilities relating to its joint ventures comprised bank guarantees of HK$24 million (2013: HK$24 million) and corporate guarantee of HK$100 million (2013: HK$157 million).

23 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's joint ventures

Set out below is summarized unaudited financial information for the joint venture that is material to the Group and accounted for using the equity method.

In HK$ million	GBL As at December 31, 2013	GBL As at December 31, **2014**
Non-current assets	1,119	**1,063**
Current assets		
Cash and cash equivalents	20	**43**
Other current assets (excluding cash and cash equivalents)	19	**20**
Total current assets	39	**63**
Current liabilities		
Financial liabilities (excluding trade payables, other payables and accruals)	(240)	**(261)**
Other current liabilities (including trade payables, other payables and accruals)	(30)	**(54)**
Total current liabilities	(270)	**(315)**
Non-current liabilities		
Financial liabilities (excluding trade payables, other payables and accruals)	(897)	**(842)**
Total non-current liabilities	(897)	**(842)**
Net liabilities	(9)	**(31)**
Equity attributable to equity holders	(9)	**(31)**

23 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's joint ventures *(continued)*

In HK$ million	GBL For the year ended December 31, 2013	**2014**
Turnover	194	**227**
Depreciation and amortization	(79)	**(91)**
Interest expense	(31)	**(38)**
Profit before income tax	1	**1**
Income tax	–	**(23)**
Profit/(Loss) after income tax and total comprehensive income/(loss)	1	**(22)**
Dividends received from joint ventures	–	**–**

The information above reflects the amounts presented in the financial statements of the joint venture (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint venture.

For the year ended December 31, 2014, the aggregate amount of the Group's shares of the profit after income tax, other comprehensive income and total comprehensive income in individually immaterial joint ventures that are accounted for using the equity method were HK$16 million (2013: HK$83 million), nil (2013: nil) and HK$16 million (2013: HK$83 million), respectively.

d. Reconciliation of summarized unaudited financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interests in the principal joint venture.

In HK$ million	GBL 2013	**2014**
Net liabilities		
Beginning of year	(10)	**(9)**
Profit/(Loss) and total comprehensive income/(loss) for the year	1	**(22)**
End of year	(9)	**(31)**
Interest in joint venture	50%*	**50%***
Interest in joint venture	(5)	**(16)**
Loan due from a joint venture	524	**478**
Carrying value	519	**462**

* The Company indirectly held 31.5% effective interest in equity of GBL as at December 31, 2013 and 2014.

As at December 31, 2014, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method was HK$35 million (2013: HK$63 million).

During the year ended December 31, 2014, the Group had unrecognized share of profit of joint ventures of HK$1 million (2013: loss of HK$11 million). As at December 31, 2014, the accumulated share of losses of the joint ventures unrecognized by the Group was HK$10 million (2013: HK$11 million).

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	The Group 2013	2014
Beginning of year	685	**706**
Additions	37	**176**
Disposal	–	**(1)**
Return of investment	(131)	**(28)**
Impairment loss recognized	(77)	**(12)**
Net gains/(losses) transferred to equity	192	**(87)**
End of year	706	**754**

In HK$ million	The Group 2013	2014
Listed equity securities – overseas	197	**104**
Unlisted equity securities	509	**650**
	706	**754**
Market value of listed equity securities	197	**104**

During the year ended December 31, 2014, provision for impairment of HK$12 million (2013: HK$77 million) was included in other gains, net in the consolidated income statement and there was no transfer (2013: a transfer of HK$1 million) from equity to the consolidated income statement on impairment. This was a result of the estimated recoverable amount being lower than its carrying amount. The Group does not hold any collateral over these balances.

During the year ended December 31, 2014, available-for-sale financial assets with a carrying value of approximately HK$1 million were sold at their carrying value and there was a transfer of HK$1 million from equity to the consolidated income statement on disposal and a realized gain of HK$1 million was recognized in other gains, net in the consolidated income statement.

25 CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of the residential portion of the Cyberport project retained in bank accounts opened and maintained by stakeholders. These amounts will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement.

b. Restricted cash

The balance of the Group included a restricted cash balance of approximately HK$1,022 million as at December 31, 2014 (2013: HK$1,022 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

As at December 31, 2013, the amount of HK$10 million represented cash balances held in specific interest reserve accounts for bank borrowing purposes. The bank borrowing was repaid during the year ended December 31, 2014.

c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets of the Group were prepaid programme costs of approximately HK$179 million as at December 31, 2014 (2013: HK$240 million).

25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

d. Inventories

In HK$ million	The Group 2013	**2014**
Work-in-progress	686	**420**
Finished goods	444	**313**
Consumable inventories	69	**68**
	1,199	**801**

e. Trade receivables, net

In HK$ million	The Group 2013	**2014**
Trade receivables *(note i)*	3,725	**4,731**
Less: Impairment loss for doubtful debts *(note ii)*	(224)	**(234)**
Trade receivables, net	3,501	**4,497**

i. Aging of trade receivables

In HK$ million	The Group 2013	**2014**
0–30 days	1,784	**2,479**
31–60 days	555	**640**
61–90 days	270	**289**
91–120 days	129	**190**
Over 120 days	987	**1,133**
	3,725	**4,731**

ii. Impairment loss for doubtful debts

The movement in the provision for doubtful debts during the year, including both specific and collective loss components, is as follows:

In HK$ million	The Group 2013	**2014**
Beginning of year	241	**224**
Impairment loss recognized	149	**187**
Uncollectible amounts written off	(166)	**(177)**
End of year	224	**234**

As at December 31, 2014, trade receivables of HK$156 million (2013: HK$125 million) were 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$156 million (2013: HK$125 million) was recognized. The Group does not hold any collateral over these balances.

25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

e. Trade receivables, net *(continued)*

iii. Trade receivables that are not impaired

The aging of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

In HK$ million	The Group 2013	2014
Neither past due nor impaired	1,350	**2,053**
0–30 days past due	846	**924**
31–60 days past due	290	**328**
61–90 days past due	169	**203**
Over 90 days past due	846	**989**
Past due but not considered impaired	2,151	**2,444**
	3,501	**4,497**

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 considered impaired relate to customers that have a good track record with the Group 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.

Included in trade receivables, net were amounts due from related parties of HK$76 million (2013: HK$155 million).

f. Short-term borrowings

In HK$ million	The Group		The Company	
	2013	**2014**	2013	**2014**
US$500 million 5.25% guaranteed notes due 2015 *(note i)*	–	**3,877**	–	**–**
Bank borrowings *(note ii)*	1	**946**	–	**946**
	1	**4,823**	–	**946**
Secured	–	**–**	–	**–**
Unsecured	1	**4,823**	–	**946**

i. US$500 million 5.25% guaranteed notes due 2015

On July 20, 2005, PCCW-HKT Capital No.3 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 5.25% guaranteed notes due 2015, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by PCCW-HKT Telephone Limited ("HKTC"), HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKTL.

ii. Bank borrowings

The bank borrowings as at December 31, 2014 mainly represented certain loans maturing in 2015.

Please refer to note 40 for details of the Group's bank loan facilities.

25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

g. Trade payables

The aging of trade payables is set out below:

In HK$ million	The Group 2013	The Group 2014
0–30 days	1,033	**1,180**
31–60 days	172	**148**
61–90 days	99	**40**
91–120 days	25	**59**
Over 120 days	789	**904**
	2,118	**2,331**

Included in trade payables were amounts due to related parties of HK$22 million (2013: HK$36 million).

26 LONG-TERM BORROWINGS

In HK$ million	The Group 2013	The Group 2014	The Company 2013	The Company 2014
Repayable within a period				
– over one year, but not exceeding two years	6,910	**11,798**	1,575	**–**
– over two years, but not exceeding five years	16,774	**18,835**	–	**1,778**
– over five years	5,390	**5,861**	–	**–**
	29,074	**36,494**	1,575	**1,778**
Representing:				
US$500 million 5.25% guaranteed notes due 2015 *(note a)*	3,868	**–**	–	**–**
US$500 million 4.25% guaranteed notes due 2016 *(note b)*	3,961	**3,924**	–	**–**
US$300 million 5.75% guaranteed notes due 2022 *(note c)*	2,010	**2,167**	–	**–**
US$500 million 3.75% guaranteed notes due 2023 *(note d)*	3,380	**3,694**	–	**–**
Bank borrowings *(note e)*	15,855	**26,709**	1,575	**1,778**
	29,074	**36,494**	1,575	**1,778**
Secured	1,467	**–**	–	**–**
Unsecured	27,607	**36,494**	1,575	**1,778**

a. US$500 million 5.25% guaranteed notes due 2015

The notes were classified as short-term borrowings as at December 31, 2014. Please refer to note 25(f)(i) for more details.

b. US$500 million 4.25% guaranteed notes due 2016

On August 24, 2010, PCCW-HKT Capital No.4 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 4.25% guaranteed notes due 2016, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

26 LONG-TERM BORROWINGS *(CONTINUED)*

c. US$300 million 5.75% guaranteed notes due 2022

On April 17, 2012, PCCW Capital No. 4 Limited, a direct wholly-owned subsidiary of the Company, issued US$300 million 5.75% guaranteed notes due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

d. US$500 million 3.75% guaranteed notes due 2023

On March 8, 2013, PCCW-HKT Capital No.5 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

e. Bank borrowings

The increase in bank loans was a reflection of the additional borrowings raised for the acquisition of the CSL Group by HKT, and the full subscription to its pro rata share of the HKT's rights issue by a subsidiary of the Company.

Please refer to note 40 for details of the Group's bank loan facilities.

27 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

In HK$ million	The Group **2014**		
	Government share under the Cyberport Project Agreement	**Others**	**Total**
Beginning of year	**516**	**5**	**521**
Addition to amount payable	**1**	**–**	**1**
End of year, classified as current liabilities	**517**	**5**	**522**

Pursuant to the Cyberport Project Agreement, the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to the Government at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. The construction of residential portion of the Cyberport project was completed in November 2008.

Pursuant to the Cyberport Project Agreement, the Government shall be entitled to receive payments of approximately 65% from the surplus cash flow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. Amount payable to the Government is considered as a part of the development costs for the Cyberport project. The amount payable to the Government is based on sales proceeds of the residential portion of the Cyberport project and the estimated development costs of the Cyberport project.

28 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	The Group		The Company	
	2013	**2014**	2013	**2014**
Non-current assets				
Fixed-to-fixed cross currency swap contracts				
– cash flow hedges *(note a)*	67	**–**	–	**–**
	67	**–**	–	**–**
Current assets				
Fixed-to-fixed cross currency swap contracts				
– cash flow hedges *(note a)*	–	**49**	–	**–**
Non-current liabilities				
Fixed-to-floating cross currency swap contracts				
– cash flow hedges *(note b)*	(16)	**17**	(16)	**17**
Fixed-to-floating cross currency swap contracts				
– fair value hedges *(note b)*	(695)	**(234)**	(290)	**(134)**
	(711)	**(217)**	(306)	**(117)**

As at December 31, 2014, the Group had outstanding cross currency swap contracts with notional contract amounts of US$1,300 million (approximately HK$10,087 million) (2013: US$1,300 million (approximately HK$10,081 million)) at various rates, to manage the Group's 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 maturity of the 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. The fixed-to-fixed cross currency swap contract outstanding as at December 31, 2014 with notional contract amounts of US$500 million (approximately HK$3,880 million) (2013: US$500 million (approximately HK$3,877 million)) was designated as cash flow hedge of the foreign exchange rate risk in the Group's foreign currency denominated borrowings. Maturity of this swap matches with the maturity of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7790 (2013: 7.7790) for the notional amounts (see note 37(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contract will be continuously released to the income statement until the repayment of the borrowings.

b. The Group has entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2014 with notional contract amounts of US$800 million (approximately HK$6,208 million) (2013: US$800 million (approximately HK$6,204 million)). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and has fixed the USD/HKD exchange rate at 7.7555 to 7.7570 (2013: 7.7555 to 7.7570) for the notional amounts (see note 37(c)(i)). The swaps also pre-determined the interest rates at HIBOR plus 2.115% to HIBOR plus 4.43% (2013: HIBOR plus 2.115% to HIBOR plus 4.43%) (see note 37(c)(ii)).

These swap contracts were designated as (i) cash flow hedges of the foreign exchange rate risk in the Group's foreign currency denominated borrowings and (ii) fair value hedges of the interest rate risk in the Group's borrowings at fixed interest rates.

Gains and losses recognized in the hedging reserve under equity on those swap contracts designated as cash flow hedges will be continuously released to the income statement until the repayment of the borrowings.

28 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

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 statement of financial position 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" in the consolidated income statement. The net effect recognized in the "Finance costs" represents the ineffective portion of the hedging relationship, amounted to approximately a gain of HK$2 million for the current year (2013: loss of HK$6 million).

29 SHARE CAPITAL

	As at December 31,			
	2013		**2014**	
	Number of shares	HK$ million	**Number of shares**	**HK$ million**
Authorized: *(note a)*				
Ordinary shares (2013: HK$0.25 each) *(note b)*	10,000,000,000	2,500	**–**	**–**

	Year ended December 31,			
	2013		**2014**	
	Number of shares	Share capital HK$ million	**Number of shares**	**Share capital HK$ million**
Issued and fully paid:				
As at January 1	7,272,294,654	1,818	**7,272,294,654**	**1,818**
PCCW Shares issued in lieu of cash dividends *(note c)*	–	–	**170,883,007**	**756**
PCCW Shares issued for share award scheme *(note d)*	–	–	**10,000,000**	**–**
Transfer from share premium account and capital redemption reserve account upon transition to no-par value regime on March 3, 2014 *(note e)*	–	–	**–**	**9,146**
As at December 31	7,272,294,654	1,818	**7,453,177,661**	**11,720**

a. Under the new Hong Kong Companies Ordinance (Cap. 622) which came into effect on March 3, 2014, the concept of authorized share capital no longer exists.

b. In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from March 3, 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

c. During the year ended December 31, 2014, the Company issued and allotted 114,240,694 and 56,642,313 new fully paid shares (2013: nil) at an average price of HK$4.148 and HK$4.988 per share respectively to the shareholders who elected to receive PCCW Shares in lieu of cash for 2013 final dividend and 2014 interim dividend pursuant to the respective scrip dividend schemes.

d. During the year ended December 31, 2014, the Company issued and allotted 10,000,000 new fully paid shares (2013: nil) at HK$0.01 per share pursuant to the share award scheme.

e. In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on March 3, 2014, any amount standing to the credit of the share premium account and the capital redemption reserve account has become part of the Company's share capital.

30 EMPLOYEE RETIREMENT BENEFITS

a. Defined benefit retirement schemes

The Group operates defined benefit retirement schemes ("DB Schemes") that provide monthly pension payments for employees retired on or before July 1, 2003. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by an independent trustee and maintained independently of the Group's finances.

The DB Schemes are funded by contributions from the Group and employees in accordance with qualified independent actuaries' recommendation from time to time on the basis of periodic valuations.

The funding valuation as of January 1, 2015 is currently in progress and the expected employer contributions for the next financial year will be confirmed after the funding valuation is completed.

The latest independent actuarial valuation of the DB Schemes, prepared in accordance with HKAS 19 (2011), was carried out on December 31, 2014 by Ms Wing Lui of Towers Watson Hong Kong Limited, a fellow of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 61% (2013: 65%) of the present value of the defined benefit obligations as at December 31, 2014.

The weighted average duration of the defined benefit obligations is 12.4 years (2013: 12.6 years).

i. The amount recognized in the consolidated statement of financial position is as follows:

In HK$ million	The Group 2013	**2014**
Present value of the defined benefit obligations *(note iii)*	283	**295**
Fair value of scheme assets *(note iv)*	(185)	**(179)**
Defined benefit liability in the consolidated statement of financial position	98	**116**

ii. Major categories of scheme assets as a percentage of total scheme assets are as follows:

	The Group 2013	**2014**
Equities	52%	**55%**
Fixed income securities	42%	**42%**
Cash and alternatives	6%	**3%**
Total	100%	**100%**

The Group ensures that the investment positions are managed within an asset-liability matching framework with the objective to match assets to the defined benefit obligations (i.e. to match the benefit payments as they fall due and in the appropriate currency).

Through the DB Schemes, the Group is exposed to a number of risks, the most significant of which are detailed below:

- Investment risk: strong investment returns tend to increase the fair value of scheme assets and therefore improve the scheme's financial position as measured by the net defined benefit liability/asset, whilst poor or negative investment returns tend to weaken the position.

  The scheme assets are invested in a globally diversified portfolio of equities, fixed income securities, cash and alternatives, covering major geographical locations around the world to achieve the best returns over the long term within an acceptable level of risk. The diversification of asset classes and geographical locations helps to reduce the concentration of risk associated with the scheme investments.

- Interest rate risk: the defined benefit obligations are calculated using a discount rate based on market bond yields. A decrease in the bond yields will increase the defined benefit obligations and vice versa. As the bond yields have been volatile in recent years, the discount rate has changed significantly.

- Inflation risk: pension in payment or in deferment may be increased once a year to reflect all or part of the cost-of-living increases in Hong Kong. The higher-than-expected increases in pensions will increase the defined benefit obligations and vice versa.

- Longevity risk: the defined benefit obligations are calculated by reference to the best estimate of the mortality of members after their employment. A decrease in mortality (i.e. improvement in life expectancy) will increase the defined benefit obligations.

30 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

iii. Movements in the present value of the defined benefit obligations are as follows:

In HK$ million	The Group 2013	2014
Beginning of year	368	**283**
Interest cost	3	**7**
Remeasurements		
Experience losses	–	**5**
(Gain)/Loss from change in financial assumptions	(74)	**14**
Benefits paid	(14)	**(14)**
End of year	283	**295**

iv. Movements in the fair value of scheme assets are as follows:

In HK$ million	The Group 2013	2014
Beginning of year	186	**185**
Interest income on scheme assets	2	**4**
Return on scheme assets greater than discount rate	11	**4**
Benefits paid	(14)	**(14)**
End of year	185	**179**

v. Pension cost for defined benefit retirement schemes recognized in the consolidated income statement is as follows:

In HK$ million	The Group 2013	2014
Net interest on net defined benefit liability	1	**3**
Total included in General and administrative expenses – retirement costs for other staff	1	**3**

vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows:

	The Group 2013	2014
Discount rate	2.50%	**2.10%**
Pension increase rate	3.00%	**3.00%**

Based on the Hong Kong Life Tables 2011 released by the Government and upon observing the past experience of the DB Schemes, the Group adopted the Hong Kong Life Tables 2011 with a 3-year age set forward for the years ended December 31, 2013 and 2014.

30 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows: *(continued)*

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is:

		The Group			
		Impact on defined benefit obligations			
		2013		**2014**	
	Change in assumption	Increase in assumption	Decrease in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.25%**	(3.10%)	3.30%	**(3.10%)**	**3.30%**
Pension increase rate	**0.25%**	3.10%	n/a*	**3.20%**	**n/a***
Mortality	**1 year**	(4.50%)**	4.50%**	**(4.60%)****	**4.80%****

* Certain pension payments of the DB Schemes are subject to a minimum pension increase rate of 3.00% per annum taking into account of inflation and other market factors.

** Increase in assumption means the Hong Kong Life Tables 2011 with a 4-year age set forward, whereas decrease in assumption means the Hong Kong Life Tables 2011 with a 2-year age set forward.

The above sensitivity analyzes are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (the projected unit credit method used to calculate the present value of defined benefit obligations at the end of the reporting period) has been applied as when calculating the pension liability recognized in the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

vii. Expected maturity analysis of undiscounted defined benefits as at December 31, 2013 and 2014 are as follows:

In HK$ million	The Group 2013				
	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total
Undiscounted defined benefits	14	14	42	332	402

In HK$ million	The Group **2014**				
	Within 1 year	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total**
Undiscounted defined benefits	**14**	**14**	**43**	**325**	**396**

b. The defined benefit retirement schemes of CSL Holdings Limited were terminated subsequent to the completion of the acquisition. The termination of the schemes resulted in a reversal of retirement benefits expense of HK$106 million recognized in the consolidated income statement during the year ended December 31, 2014.

30 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

c. Defined contribution retirement schemes

The Group also operates 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 Group.

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$25,000, which was revised upward to HK$30,000 with effect from June 1, 2014. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

31 SHARE-BASED PAYMENT TRANSACTIONS

a. Share option schemes of the Company

The Company had a share option scheme which was adopted on September 20, 1994 (the "1994 Scheme"). At the annual general meeting of the Company held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and the adoption of a new share option scheme (the "2004 Scheme"). The 2004 Scheme was subsequently terminated on May 8, 2014 following the approval by the shareholders of the Company at the annual general meeting of the Company held on the same day to adopt another new share option scheme (the "2014 Scheme"). After the termination of both the 1994 Scheme and the 2004 Scheme, no further share options will be granted under such schemes, but in all other respects the provisions of such schemes will remain in full force and effect. There is no material difference between the terms of the 2004 Scheme and the 2014 Scheme.

The Company currently operates the 2014 Scheme, under which the Board may, at its discretion, grant share options to any eligible participant to subscribe for shares of the Company subject to the terms and conditions stipulated therein.

i. Purpose

The purpose of the 2014 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

ii. Eligible participants

Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of the Group or any member of it, whether in full time or part time employment of the Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the Group or any member of it and any other person whomsoever is determined by the Board as having contributed to the development, growth or benefit of the Group or any member of it or as having spent any material time in or about the promotion of the Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2014 Scheme.

iii. Total number of shares available for issue

The maximum number of shares in respect of which options may be granted under the 2014 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of adoption of the 2014 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 2014 Scheme and other share option schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time.

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

a. Share option schemes of the Company *(continued)*

iv. The maximum entitlement of each eligible participant

The maximum entitlement of any eligible participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2014 Scheme is the total number of shares issued and to be issued on exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant up to a maximum of 1% of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting.

v. Option period

The period within which an option may be exercised under the 2014 Scheme will be determined by the Board at its absolute discretion, save that no option may be exercised later than 10 years from the date of grant of the option.

vi. Minimum period for which an option must be held before it is vested

The period within which an option may be exercised under the 2014 Scheme will be determined by the Board at its absolute discretion, provided that such terms and conditions shall not be inconsistent with the 2014 Scheme.

vii. Payment on acceptance of the option

The 2014 Scheme does not specify any consideration which is payable on the acceptance of an option and the Board may at its absolute discretion, determine any other terms and conditions in relation to the option which shall not be inconsistent with the 2014 Scheme. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant. Any option so rejected shall be deemed null and void and never to have been granted.

viii. Basis of determining the subscription price

Under the 2014 Scheme, the exercise price in relation to each option shall be determined by the Board at its absolute discretion, but in any event shall not be less than the higher of (i) the closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of such option; and (ii) the average closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the five trading days last preceding the date of grant of such option on which days it has been possible to trade shares on the Stock Exchange.

ix. The remaining life of the 2014 Scheme

Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing from its date of adoption, after which period no further options will be offered or granted but the provisions of the 2014 Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the 2014 Scheme.

As at January 1, 2014 and December 31, 2014, there were no outstanding share options under the 1994 Scheme, the 2004 Scheme and the 2014 Scheme. There were also no share options granted to or exercised by any director or chief executive of the Company or employee of the Group or any other eligible participant, nor any share options cancelled or lapsed under the 1994 Scheme, the 2004 Scheme and the 2014 Scheme during the year ended December 31, 2014.

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

a. Share option schemes of the Company *(continued)*

x. Movements in the number of share options outstanding and their related weighted average exercise prices

	2013		**2014**	
	Weighted average exercise price HK$	Number of options	**Weighted average exercise price HK$**	**Number of options**
Beginning of year	4.35	39,965,538	**N/A**	**–**
Cancelled/Lapsed *(note xi)*	4.35	(39,965,538)	**N/A**	**–**
End of year	N/A	–	**N/A**	**–**
Exercisable at end of year	N/A	–	**N/A**	**–**

xi. Details of share options cancelled or lapsed during the year

Exercise period	Exercise price HK$	Number of options 2013	**2014**
July 25, 2004 to July 23, 2013	4.35	39,965,538	**–**
		39,965,538	**–**

b. Share award schemes of the Company

In 2002, the Company established two employee share incentive award schemes under which awards of shares may be granted to employees of participating subsidiaries. Directors of the Company are not eligible to participate in either scheme. On June 10, 2002, the Company approved the establishment of the Purchase Scheme under which selected employees are awarded shares purchased in the market. On November 12, 2002, the Company approved the establishment of the Subscription Scheme under which selected employees are awarded newly issued shares. The purpose of both the Purchase Scheme and the Subscription Scheme is to recognize the contributions of certain employees of the Group, to retain them for the continued operation and development of the Group, and to attract suitable personnel for the further development of the Group. Under both schemes, following the making of an award to an employee, the relevant shares are held on trust for that employee and then vest over a period of time provided that the employee remains an employee of the Group at the relevant time and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant committee of the Company's Board shall be at liberty to waive such condition. In May 2006, the rules of the Purchase Scheme were altered such that the directors of the Company are also eligible to participate in such scheme. The maximum aggregate number of shares that can be awarded under the two schemes is limited to 1% of the issued share capital of the Company (excluding shares that have already been transferred to employees on vesting).

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

The Purchase Scheme and the Subscription Scheme expired on November 15, 2012 however the shares which were previously awarded prior to the expiry date were not affected. New scheme rules in respect of the Purchase Scheme and the Subscription Scheme were adopted on November 15, 2012 so as to allow both schemes to continue to operate for a further 10 years and to accommodate the grant of the Share Stapled Units in addition or as an alternative to the shares of the Company, in the future.

A summary of movements in PCCW Shares and Share Stapled Units held under the Purchase Scheme and the Subscription Scheme during the year is as follows:

	Number of PCCW Shares	
	2013	**2014**
The Purchase Scheme:		
Beginning of year	11,713,109	**19,104,824**
Purchase from market by the trustee at weighted average market price of HK$4.20 (2013: HK$3.81) per PCCW Share	11,021,000	**855,000**
Transfer to grantees in lieu of cash dividends	–	**(12,611)**
PCCW Shares vested	(3,629,285)	**(8,830,426)**
End of year	19,104,824	**11,116,787**
The Subscription Scheme:		
Newly issued by the Company at issue price of HK$0.01 per PCCW Share during the year and at end of year	–	**10,000,000**

	Number of Share Stapled Units	
	2013	**2014**
The Purchase Scheme:		
Beginning of year	181,500	**169,413**
Purchase from market by the trustee at weighted average market price of HK$9.05 (2013: HK$7.11) per Share Stapled Unit	18,000	**65,000**
Purchase under the rights issue of the HKT Trust and HKT by the trustee at subscription price of HK$6.84 (2013: nil) per Share Stapled Unit	–	**28,924**
Share Stapled Units vested	(30,087)	**(68,378)**
End of year	169,413	**194,959**

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

Details of PCCW Shares and Share Stapled Units awarded pursuant to the Purchase Scheme and the Subscription Scheme during the year and the PCCW Shares and the Share Stapled Units unvested, are as follows:

i. Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award

	2013		**2014**	
	Weighted average fair value on the date of award HK$	Number of PCCW Shares	**Weighted average fair value on the date of award HK$**	**Number of PCCW Shares**
The Purchase Scheme:				
Beginning of year	2.89	11,645,118	**3.33**	**18,552,903**
Awarded *(note iii)*	3.65	10,775,218	**4.01**	**3,839,278**
Forfeited *(note iv)*	3.44	(238,148)	**3.94**	**(1,227,689)**
Vested *(note v)*	2.87	(3,629,285)	**3.22**	**(8,830,426)**
End of year *(note ii)*	3.33	18,552,903	**3.53**	**12,334,066**
The Subscription Scheme:				
Beginning of year	N/A	–	**N/A**	**–**
Awarded *(note iii)*	N/A	–	**4.12**	**6,099,854**
Forfeited *(note iv)*	N/A	–	**3.99**	**(195,797)**
End of year *(note ii)*	N/A	–	**4.12**	**5,904,057**

	2013		**2014**	
	Weighted average fair value on the date of award HK$	Number of Share Stapled Units	**Weighted average fair value on the date of award HK$**	**Number of Share Stapled Units**
The Purchase Scheme:				
Beginning of year	N/A	–	**7.59**	**17,450**
Awarded *(note iii)*	7.59	17,450	**9.08**	**307,920**
Vested *(note v)*	N/A	–	**8.55**	**(23,226)**
End of year *(note ii)*	7.59	17,450	**9.04**	**302,144**

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

ii. Terms of unvested PCCW Shares and Share Stapled Units at the end of the reporting period

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW Shares 2013	Number of PCCW Shares **2014**
The Purchase Scheme:				
March 5, 2012	March 5, 2012 to July 8, 2014	2.93	2,077,000	**–**
March 5, 2012	March 5, 2012 to July 8, 2015	2.93	3,461,000	**3,461,000**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	2,004,251	**–**
June 15, 2012	June 15, 2012 to June 15, 2014	2.97	419,864	**–**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	4,053,930	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	4,190,786	**3,792,114**
May 10, 2013	May 10, 2013 to May 10, 2014	4.17	308,036	**–**
May 10, 2013	May 10, 2013 to May 10, 2015	4.17	308,036	**308,036**
July 5, 2013	July 5, 2013 to July 8, 2016	3.61	519,000	**519,000**
July 5, 2013	July 5, 2013 to July 8, 2017	3.61	1,211,000	**1,211,000**
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**1,451,594**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	**1,591,322**
			18,552,903	**12,334,066**
The Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**2,554,533**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	**2,553,605**
November 10, 2014	November 10, 2014 to November 10, 2015	4.95	–	**397,960**
November 10, 2014	November 10, 2014 to November 10, 2016	4.95	–	**397,959**
			–	**5,904,057**

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2013	Number of Share Stapled Units **2014**
The Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	8,725	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	8,725	**8,725**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	–	**8,594**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	–	**8,594**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	–	**101,751**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	–	**87,250**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	**87,230**
			17,450	**302,144**

The PCCW Shares and Share Stapled Units unvested at December 31, 2014 had a weighted average remaining vesting period of 0.77 years (2013: 1.03 years) and 1.15 years (2013: 0.72 years), respectively.

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

iii. Details of PCCW Shares and Share Stapled Units awarded during the year

			Number of PCCW Shares	
Date of award	Vesting period	Fair value on the date of award HK$	2013	**2014**
The Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	4,146,161	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	4,282,985	**–**
May 10, 2013	May 10, 2013 to May 10, 2014	4.17	308,036	**–**
May 10, 2013	May 10, 2013 to May 10, 2015	4.17	308,036	**–**
July 5, 2013	July 5, 2013 to July 8, 2016	3.61	519,000	**–**
July 5, 2013	July 5, 2013 to July 8, 2017	3.61	1,211,000	**–**
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**1,451,594**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	**1,591,322**
May 2, 2014	May 2, 2014 to May 2, 2015	4.11	–	**398,181**
May 2, 2014	May 2, 2014 to May 2, 2016	4.11	–	**398,181**
			10,775,218	**3,839,278**
The Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**2,652,462**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	**2,651,473**
November 10, 2014	November 10, 2014 to November 10, 2015	4.95	–	**397,960**
November 10, 2014	November 10, 2014 to November 10, 2016	4.95	–	**397,959**
			–	**6,099,854**

			Number of Share Stapled Units	
Date of award	Vesting period	Fair value on the date of award HK$	2013	**2014**
The Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	8,725	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	8,725	**–**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	–	**8,594**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	–	**8,594**
July 1, 2014	July 1, 2014 to July 1, 2014	9.13	–	**14,501**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	–	**101,751**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	–	**87,250**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	**87,230**
			17,450	**307,920**

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

iv. Details of PCCW Shares forfeited during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW Shares 2013	**2014**
The Purchase Scheme:				
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	4,376	**–**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	49,342	**2,974**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	92,231	**31,166**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	92,199	**397,187**
May 2, 2014	May 2, 2014 to May 2, 2015	4.11	–	**398,181**
May 2, 2014	May 2, 2014 to May 2, 2016	4.11	–	**398,181**
			238,148	**1,227,689**
The Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**97,929**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	**97,868**
			–	**195,797**

v. Details of PCCW Shares and Share Stapled Units vested during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW Shares 2013	**2014**
The Purchase Scheme:				
March 5, 2012	March 5, 2012 to July 8, 2013	2.93	1,384,000	**–**
March 5, 2012	March 5, 2012 to July 8, 2014	2.93	–	**2,077,000**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	1,825,420	**–**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	–	**2,001,277**
June 15, 2012	June 15, 2012 to June 15, 2013	2.97	419,865	**–**
June 15, 2012	June 15, 2012 to June 15, 2014	2.97	–	**419,864**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	–	**4,022,764**
March 21, 2013	March 21, 2013 to March 21, 2015*	3.62	–	**1,485**
May 10, 2013	May 10, 2013 to May 10, 2014	4.17	–	**308,036**
			3,629,285	**8,830,426**

* The shares are vested before the vesting date on March 21, 2015 by the discretion of the relevant committee of the Board.

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

v. Details of PCCW Shares and Share Stapled Units vested during the year *(continued)*

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2013	**2014**
The Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	–	**8,725**
July 1, 2014	July 1, 2014 to July 1, 2014	9.13	–	**14,501**
			–	**23,226**

The fair values of the PCCW Shares and Share Stapled Units awarded during the year at dates of award are measured by the quoted market price of the PCCW Shares and Share Stapled Units at the respective award dates respectively.

During the year, share-based compensation expenses in respect of the PCCW Shares and Share Stapled Units of HK$37 million (2013: HK$32 million) are recognized in the consolidated income statement and HK$37 million (2013: HK$32 million) are recognized in the employee share-based compensation reserve.

c. Share option schemes of PCPD

PCPD approved and adopted a share option scheme on March 17, 2003 (the "2003 PCPD Scheme"), which was valid for 10 years after the date of adoption. In order to align the terms of the share option scheme of PCPD with those of the Company and in view of the limited number of shares capable of being issued under the 2003 PCPD Scheme relative to the then capital base of PCPD, the shareholders of PCPD approved the termination of the 2003 PCPD Scheme and the adoption of a new share option scheme (the "2005 PCPD Scheme") at PCPD's annual general meeting held on May 13, 2005. The 2005 PCPD Scheme became effective on May 23, 2005 following its approval by the shareholders of the Company. No further share options will be granted under the 2003 PCPD Scheme following its termination, but the provisions of such scheme will remain in full force and effect with respect to the options granted prior to its termination.

Under the 2005 PCPD Scheme, the board of directors of PCPD may, at its discretion, grant share options to any eligible person to subscribe for shares in PCPD subject to the terms and conditions stipulated in the 2005 PCPD Scheme. The exercise price of the options under the 2005 PCPD Scheme is determined by the board of directors of PCPD at its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of PCPD as stated in the daily quotation sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares of PCPD as stated in the daily quotation 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 the share of PCPD on the date of grant. 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 2005 PCPD Scheme and any other share option schemes of PCPD must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares of PCPD in respect of which options may be granted under the 2005 PCPD Scheme shall not (when aggregated with any shares subject to any grants made after May 23, 2005 pursuant to any other share option schemes of PCPD) exceed 10% of the issued share capital of PCPD on May 23, 2005 (or some other date if renewal of this limit is approved by shareholders). The maximum entitlement of any eligible person (other than a substantial shareholder or an independent non-executive director of PCPD, or any of their respective associates) under the 2005 PCPD Scheme is the total number of shares issued and to be issued on exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant up to a maximum of 1% of the shares of PCPD in issue at the relevant time. Any further grant of share options in excess of this limit is subject to approval of the shareholders of PCPD at a general meeting.

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

c. Share option schemes of PCPD *(continued)*

The 2005 PCPD Scheme will expire in May 2015 and an ordinary resolution will be proposed at the forthcoming annual general meeting of each of PCPD and the Company to approve the termination of the 2005 PCPD Scheme and the adoption of a new scheme. Following the termination of the 2005 PCPD Scheme, no further share option will be granted under such scheme, and the provisions of the 2005 PCPD Scheme will remain in full force and effect in all other respects.

No share options have been granted under the 2005 PCPD Scheme during the years ended December 31, 2013 and 2014 and no share options were outstanding at December 31, 2014 under such scheme.

Details of share options granted by PCPD pursuant to the 2003 PCPD Scheme and the share options outstanding, are as follows:

i. Movements in the number of share options outstanding and their related weighted average exercise prices

	2013		**2014**	
	Weighted average exercise price HK$	Number of options	**Weighted average exercise price HK$**	**Number of options**
Beginning of year	2.375	5,000,000	**2.375**	**5,000,000**
Exercised *(note iii)*	N/A	–	**2.375**	**(5,000,000)**
End of year *(note ii)*	2.375	5,000,000	**N/A**	**–**
Exercisable at end of year	2.375	5,000,000	**N/A**	**–**

ii. Terms of unexpired and unexercised share options at the end of the reporting period

Date of grant	Vesting date	Exercise period	Exercise price HK$	Number of options 2013	**2014**
December 20, 2004	December 20, 2004	December 20, 2004 to December 19, 2014	2.375	5,000,000	**–**
				5,000,000	**–**

As the share options were vested before January 1, 2005, there was no expense recognized in the consolidated income statement.

iii. Details of share options exercised during the year

			2013		**2014**	
Date of exercise	Exercise price HK$	Market value per share at exercise date HK$	Proceeds received HK$ million	Number of options	**Proceeds received HK$ million**	**Number of options**
October 14, 2014	2.375	3.56	–	–	**12**	**5,000,000**
			–	–	**12**	**5,000,000**

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT

i. 2011-2021 Share Stapled Units option scheme of the HKT Trust and HKT

On November 7, 2011 (the "Adoption Date"), the HKT Trust and HKT conditionally adopted a Share Stapled Units option scheme ("HKT 2011-2021 Option Scheme") which became effective upon listing of the Share Stapled Units, to enable the HKT Trust and HKT, acting jointly by mutual agreement between them, to grant options to (a) any full-time or part-time employees of HKT and/or any of its subsidiaries; (b) any director (including executive, non-executive and independent non-executive director) of HKT 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 HKT and/or any of its subsidiaries (the "Eligible Participants") as incentives or rewards for their contribution to the growth of the HKT Group and to provide the HKT Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

No Share Stapled Unit options have been granted under the HKT 2011-2021 Option Scheme since the Adoption Date. Accordingly, there were no outstanding options under the HKT 2011-2021 Option Scheme as at December 31, 2013 and 2014 and no options were granted to or exercised by any directors or chief executives of HKT and the trustee-manager of the HKT Trust or employees of the HKT Group or other participants nor cancelled or lapsed during the years ended December 31, 2013 and 2014.

ii. Share Stapled Units award schemes of HKT

On October 11, 2011, HKT 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 "HKT Share Stapled Units Award Schemes").

The HKT Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by HKT which became effective upon listing of the Share Stapled Units as a potential means to incentivize and reward the eligible participants as follows:

In the case of the HKT Share Stapled Units Purchase Scheme:

(i) any full-time or part-time employees of HKT and/or any of its subsidiaries; and

(ii) any director (including executive, non-executive and independent non-executive director) of HKT 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 HKT or its subsidiaries and/or any other connected persons of HKT.

The eligible participants are awarded Share Stapled Units purchased in the market under the HKT Share Stapled Units Purchase Scheme and newly issued Share Stapled Units under the HKT Share Stapled Units Subscription Scheme respectively.

The HKT Share Stapled Units Award Schemes are administered by the board of directors of HKT (the "HKT 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. Under both schemes, following the making of an award to an eligible participant, the relevant Share Stapled Units are held by the Trustee for that eligible participant and then shall vest over a period of time provided that the eligible participant who is an employee of HKT or any of its subsidiaries remains an employee of HKT or any of its subsidiaries at the relevant time and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant committee of the HKT Board shall be at liberty to waive such condition.

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT *(continued)*

ii. Share Stapled Units award schemes of HKT *(continued)*

Awards may be made by the HKT 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 HKT Board.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Subscription Scheme for the years ended December 31, 2013 and 2014.

A summary of movements in Share Stapled Units held under the HKT Share Stapled Units Purchase Scheme during the year is as follows:

	Number of Share Stapled Units 2013	**2014**
Beginning of year	1,158,000	**7,360,797**
Purchase from market by the Trustee at weighted average market price of HK$9.05 (2013: HK$7.71) per Share Stapled Unit	6,737,000	**190,000**
Purchase under the rights issue of the HKT Trust and HKT by the Trustee at subscription price of HK$6.84 (2013: nil) per Share Stapled Unit	–	**1,007,112**
Share Stapled Units vested	(534,203)	**(2,579,800)**
End of year	7,360,797	**5,978,109**

Details of Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the Share Stapled Units unvested, are as follows:

(i) Movements in the number of unvested Share Stapled Units and their related weighted average fair value on date of award

	2013		**2014**	
	Weighted average fair value on the date of award HK$	Number of Share Stapled Units	**Weighted average fair value on the date of award HK$**	**Number of Share Stapled Units**
Beginning of year	5.98	1,140,265	**7.27**	**2,955,982**
Awarded *(note (iii))*	7.59	2,387,498	**9.03**	**12,962,935**
Forfeited *(note (iv))*	6.84	(37,578)	**8.99**	**(344,000)**
Vested *(note (v))*	5.98	(534,203)	**7.71**	**(2,579,800)**
End of year *(note (ii))*	7.27	2,955,982	**8.89**	**12,995,117**

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT *(continued)*

ii. Share Stapled Units award schemes of HKT *(continued)*

(ii) Terms of unvested Share Stapled Units at the end of the reporting period

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2013	Number of Share Stapled Units **2014**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	588,460	**–**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	1,183,919	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	1,183,603	**1,169,756**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	–	**732,874**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	–	**732,583**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	–	**3,996,269**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	–	**3,182,201**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	**3,181,434**
			2,955,982	**12,995,117**

The Share Stapled Units unvested at December 31, 2014 had a weighted average remaining vesting period of 1.04 years (2013: 0.63 years).

(iii) Details of Share Stapled Units awarded during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2013	Number of Share Stapled Units **2014**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	1,193,910	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	1,193,588	**–**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	–	**741,687**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	–	**741,389**
July 1, 2014	July 1, 2014 to July 1, 2014	9.13	–	**814,068**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	–	**4,098,245**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	–	**3,284,177**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	**3,283,369**
			2,387,498	**12,962,935**

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT *(continued)*

ii. Share Stapled Units award schemes of HKT *(continued)*

(iv) Details of Share Stapled Units forfeited during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2013	**2014**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	545	**–**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	17,057	**–**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	9,991	**6,647**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	9,985	**13,847**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	–	**8,813**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	–	**8,806**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	–	**101,976**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	–	**101,976**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	**101,935**
			37,578	**344,000**

(v) Details of Share Stapled Units vested during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2013	**2014**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	534,203	**–**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	–	**588,460**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	–	**1,177,272**
July 1, 2014	July 1, 2014 to July 1, 2014	9.13	–	**814,068**
			534,203	**2,579,800**

The fair value of the Share Stapled Units awarded during the year at the date of award is measured by the quoted market price of the Share Stapled Units at the respective award dates.

During the year, share-based compensation expenses in respect of the Share Stapled Units of HK$59 million (2013: HK$13 million) are recognized in the consolidated income statement, HK$37 million (2013: HK$9 million) are recognized in the employee share-based compensation reserve and HK$22 million (2013: HK$4 million) are recognized in the non-controlling interests.

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

e. Share-based payment transactions with cash alternatives

i. On May 23, 2013, the PCPD Group entered into a supporting agreement with an affiliated company of the seller of a plot of land in Jakarta, Indonesia (the "Supporter") under which the PCPD Group will settle part of the supporting services received for the value of US$23 million (subject to certain downward adjustments) by means of issuing shares that represent 6.388% of the share capital in an indirect wholly-owned subsidiary of PCPD ("Melati") ("Supporter Shares") and by assignment of the shareholder's loan to Melati ("Supporter Shareholder's Loans").

In addition, the PCPD Group granted to the Supporter a right (but not an obligation) to require the PCPD Group, after the expiry of 5 years from the date on which the Supporter Shares are issued and the Supporter Shareholder's Loans assigned, to purchase from the Supporter all (but not part) of the Supporter Shares and to take assignment of all the then outstanding Supporter Shareholder's Loans ("Supporter Put Option"). The Supporter Put Option is granted at no premium.

When the consolidated net asset value of Melati is positive, Supporter Shareholder's Loans are to be assigned at the face amount and the Supporter Shares are to be issued at its corresponding portion of the consolidated net asset value of Melati; or when the consolidated net asset value of Melati is negative, the Supporter Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Melati, and the Supporter Shares are to be issued at nominal value of US$1.

Management considered that the fair value of the Supporter Shares is positively correlated to the consolidated net asset value of Melati which is minimal as at December 31, 2014, therefore the fair value of the Supporter Shares is nil (2013: nil).

ii. On May 23, 2013, the PCPD Group entered into an investor subscription agreement and an investor loan purchase agreement with an independent third party (the "Investor"), the PCPD Group will allot to the Investor 9.99% shares of an indirect wholly-owned subsidiary of PCPD ("Rafflesia") ("Investor Shares") and assign to the Investor 9.99% of all the unsecured and non-interest bearing shareholder's loan to Rafflesia ("Investor Shareholder's Loans") at the time when the occupation permit of the Premium Grade A office building in Jakarta, Indonesia is issued. This arrangement will allow the Investor to have 9.99% of the PCPD Group's Indonesian development project at a consideration of an amount which represents the same percentage (9.99%) of the total investment cost incurred by the PCPD Group in the Indonesian development project plus finance charge from the completion date of the land acquisition to the time the shares are subscribed.

In addition, the PCPD Group granted to the Investor a right (but not an obligation) to require the PCPD Group, at any time on or after May 23, 2023, to purchase from the Investor all (but not part) of the Investor Shares and to take assignment of all the then outstanding Investor Shareholder's Loans ("Investor Put Option"). The Investor Put Option enables a structure which allows the Investor to realize its investment and prevents unknown parties from becoming a stakeholder in Rafflesia, so far as practicable. The Investor Put Option is granted at no premium.

When the consolidated net asset value of Rafflesia is positive, Investor Shareholder's Loans are to be assigned at the face amount and the Investor Shares are to be issued at its corresponding portion of the consolidated net asset value of Rafflesia; or when the consolidated net asset value of Rafflesia is negative, the Investor Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Rafflesia (in case of any shortfall after the deduction), Investor is required to settle the shortfall, and the Investor Shares are to be issued at nominal value of US$1.

Management considered the fair value of the Investor Shares is positively correlated to the consolidated net asset value of Rafflesia which is minimal as at December 31, 2014, therefore the fair value of the Investor Shares is nil (2013: nil).

32 RESERVES

In HK$ million	2013										
	Share premium	Special capital reserve *(note (a))*	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Accumulated losses)/ Retained profits	Total
THE GROUP											
At January 1, 2013	9,143	7,388	3	(44)	100	1,188	89	166	(31)	(11,020)	6,982
Total comprehensive income/(loss) for the year											
Profit for the year	–	–	–	–	–	–	–	–	–	1,885	1,885
Other comprehensive income/(loss)											
Items that will not be reclassified subsequently to income statement:											
Remeasurements of defined benefit obligations	–	–	–	–	–	–	–	–	–	85	85
Share of other comprehensive loss of an associate	–	–	–	–	–	–	–	–	–	(1)	(1)
Items that have been reclassified or may be reclassified subsequently to income statement:											
Exchange differences on translating foreign operations	–	–	–	–	–	(267)	–	–	–	–	(267)
Available-for-sale financial assets:											
– changes in fair value	–	–	–	–	–	–	–	160	–	–	160
– transfer to income statement on impairment	–	–	–	–	–	–	–	1	–	–	1
Cash flow hedges:											
– effective portion of changes in fair value	–	–	–	–	–	–	33	–	–	–	33
– transfer from equity to income statement	–	–	–	–	–	–	(25)	–	–	–	(25)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(267)	8	161	–	1,969	1,871
Transactions with equity holders											
Purchases of PCCW Shares under share award scheme	–	–	–	(42)	–	–	–	–	–	–	(42)
Purchases of Share Stapled Units under share award schemes	–	–	–	–	–	–	–	–	–	(35)	(35)
Employee share-based compensation	–	–	–	–	41	–	–	–	–	–	41
Reclassification due to expiry of share options	–	–	–	–	(63)	–	–	–	–	63	–
Vesting of PCCW Shares and Share Stapled Units under share award schemes	–	–	–	12	(12)	–	–	–	–	(1)	(1)
Dividend paid in respect of previous year	–	(981)	–	–	(4)	–	–	–	–	–	(985)
Dividend declared and paid in respect of the current year	–	(460)	–	–	(2)	–	–	–	–	–	(462)
Total transactions with equity holders	–	(1,441)	–	(30)	(40)	–	–	–	–	27	(1,484)
At December 31, 2013	9,143	5,947	3	(74)	60	921	97	327	(31)	(9,024)	7,369

32 RESERVES *(CONTINUED)*

In HK$ million	2013										
	Share premium	Special capital reserve *(note (a))*	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Accumulated losses)/ Retained profits	Total
THE COMPANY											
At January 1, 2013	9,143	7,388	3	–	83	–	(49)	–	–	10,030	26,598
Total comprehensive income/(loss) for the year											
Loss for the year	–	–	–	–	–	–	–	–	–	(160)	(160)
Other comprehensive income/(loss)											
Items that have been reclassified or may be reclassified subsequently to income statement:											
Cash flow hedges:											
– effective portion of changes in fair value	–	–	–	–	–	–	40	–	–	–	40
– transfer from equity to income statement	–	–	–	–	–	–	(4)	–	–	–	(4)
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	36	–	–	(160)	(124)
Transactions with equity holders											
Reclassification due to expiry of share options	–	–	–	–	(63)	–	–	–	–	63	–
Dividend paid in respect of previous year	–	(985)	–	–	–	–	–	–	–	–	(985)
Dividend declared and paid in respect of the current year	–	(462)	–	–	–	–	–	–	–	–	(462)
Total transactions with equity holders	–	(1,447)	–	–	(63)	–	–	–	–	63	(1,447)
At December 31, 2013	9,143	5,941	3	–	20	–	(13)	–	–	9,933	25,027

32 RESERVES *(CONTINUED)*

In HK$ million	2014										
	Share premium	Special capital reserve *(note (a))*	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Accumulated losses)/ Retained profits	Total
THE GROUP											
At January 1, 2014	9,143	5,947	3	(74)	60	921	97	327	(31)	(9,024)	7,369
Total comprehensive income/(loss) for the year											
Profit for the year	–	–	–	–	–	–	–	–	–	3,310	3,310
Other comprehensive income/(loss)											
Items that will not be reclassified subsequently to income statement:											
Remeasurements of defined benefit obligations	–	–	–	–	–	–	–	–	–	(15)	(15)
Share of other comprehensive loss of an associate	–	–	–	–	–	–	–	–	–	(1)	(1)
Items that have been reclassified or may be reclassified subsequently to income statement:											
Exchange differences on translating foreign operations	–	–	–	–	–	(320)	–	–	–	–	(320)
Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal	–	–	–	–	–	(1,206)	–	–	–	–	(1,206)
Available-for-sale financial assets:											
– changes in fair value	–	–	–	–	–	–	–	(47)	–	–	(47)
– transfer to income statement on disposal	–	–	–	–	–	–	–	(1)	–	–	(1)
Cash flow hedges:											
– effective portion of changes in fair value	–	–	–	–	–	–	17	–	–	–	17
– transfer from equity to income statement	–	–	–	–	–	–	5	–	–	–	5
Total comprehensive income/(loss) for the year	–	–	–	–	–	(1,526)	22	(48)	–	3,294	1,742
Transactions with equity holders											
Purchases of PCCW Shares under share award scheme	–	–	–	(4)	–	–	–	–	–	–	(4)
Purchases of Share Stapled Units under share award schemes	–	–	–	–	–	–	–	–	–	(6)	(6)
Employee share-based compensation	–	–	–	–	74	–	–	–	–	–	74
Vesting of PCCW Shares and Share Stapled Units under share award schemes	–	–	–	33	(37)	–	–	–	–	5	1
Dividend for Share Stapled Units granted under share award schemes	–	–	–	–	(3)	–	–	–	–	–	(3)
Transfer to share capital upon transition to no-par value regime on March 3, 2014 *(note 2(b) & 29)*	(9,143)	–	(3)	–	–	–	–	–	–	–	(9,146)
Dividend paid in respect of previous year	–	(1,006)	–	–	(3)	–	–	–	–	–	(1,009)
Dividend declared and paid in respect of the current year	–	(515)	–	–	(2)	–	–	–	–	–	(517)
Total contributions by and distributions to equity holders	(9,143)	(1,521)	(3)	29	29	–	–	–	–	(1)	(10,610)

32 RESERVES *(CONTINUED)*

In HK$ million	2014										
	Share premium	Special capital reserve *(note (a))*	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Accumulated losses)/ Retained profits	Total
THE GROUP											
Change in ownership interests in a subsidiary without change of control	–	–	–	–	–	–	–	–	–	24	24
Exercise of employee share options of a subsidiary	–	–	–	–	–	–	–	–	–	(6)	(6)
Transaction costs in relation to the issuance of Share Stapled Units	–	–	–	–	–	–	–	–	(82)	–	(82)
Total change in ownership interests in subsidiaries that do not result in a loss of control	–	–	–	–	–	–	–	–	(82)	18	(64)
Total transactions with equity holders	(9,143)	(1,521)	(3)	29	29	–	–	–	(82)	17	(10,674)
At December 31, 2014	–	4,426	–	(45)	89	(605)	119	279	(113)	(5,713)	(1,563)
THE COMPANY											
At January 1, 2014	9,143	5,941	3	–	20	–	(13)	–	–	9,933	25,027
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	–	–	3,564	3,564
Other comprehensive income											
Items that have been reclassified or may be reclassified subsequently to income statement:											
Cash flow hedges:											
– effective portion of changes in fair value	–	–	–	–	–	–	29	–	–	–	29
Total comprehensive income for the year	–	–	–	–	–	–	29	–	–	3,564	3,593
Transactions with equity holders											
Transfer to share capital upon transition to no-par value regime on March 3, 2014 *(note 2(b) & 29)*	(9,143)	–	(3)	–	–	–	–	–	–	–	(9,146)
Dividend paid in respect of previous year	–	(1,009)	–	–	–	–	–	–	–	–	(1,009)
Dividend declared and paid in respect of the current year	–	(517)	–	–	–	–	–	–	–	–	(517)
Total transactions with equity holders	(9,143)	(1,526)	(3)	–	–	–	–	–	–	–	(10,672)
At December 31, 2014	–	4,415	–	–	20	–	16	–	–	13,497	17,948

32 RESERVES *(CONTINUED)*

a. The special capital reserve was created as a result of capital reduction in 2004 where the Company applied its entire share premium balance to eliminate accumulated losses as at June 30, 2004. The special capital reserve was not treated as realized profit and (for so long as the Company remains a listed company) was treated as an undistributable reserve for the purposes of section 79C of the predecessor Hong Kong Companies Ordinance (Cap. 32).

On January 10, 2006, the High Court of Hong Kong (the "High Court") made an order which permitted the Company to distribute dividend out of the special capital reserve providing that the Company setting aside sums totalling approximately US$544 million (approximately HK$4,243 million) and HK$106 million for the sole purpose of discharging certain debts or liabilities of the Company existing at the date of the capital reduction, principally being the aggregate amount of principal, accrued interest and redemption premium payable on maturity of the US$450 million 1% guaranteed convertible bonds due 2007 issued by PCCW Capital No. 2 Limited. Those amounts were set aside, and the High Court order thereby became effective, on March 27, 2006. As at December 31, 2014, there was no cash (2013: nil) set aside and recorded under "Restricted cash" in the statement of financial position of the Company. Accordingly, as at December 31, 2014, the Company had special capital reserve, which can be distributed as dividend in accordance with above, of HK$4,415 million (2013: HK$5,941 million). Inclusive of retained profits of HK$13,497 million (2013: HK$9,933 million), the Company has total distributable reserves of HK$17,912 million as at December 31, 2014 (2013: HK$15,874 million).

33 DEFERRED INCOME TAX

a. Movement in deferred income tax liabilities/(assets) during the year is as follows:

In HK$ million	The Group 2013					
	Accelerated tax depreciation and amortization	Valuation adjustment resulting from acquisition of subsidiaries	Revaluation of properties	Tax losses	Others	Total
Beginning of year	1,745	184	376	(671)	(16)	1,618
Charged/(Credited) to consolidated income statement *(note 11(a))*	216	(20)	158	(443)	7	(82)
Additions upon business combinations	–	–	–	–	19	19
Exchange differences	13	–	13	–	(1)	25
End of year	1,974	164	547	(1,114)	9	1,580

In HK$ million	The Group **2014**					
	Accelerated tax depreciation and amortization	**Valuation adjustment resulting from acquisition of subsidiaries**	**Revaluation of properties**	**Tax losses**	**Others**	**Total**
Beginning of year	**1,974**	**164**	**547**	**(1,114)**	**9**	**1,580**
Charged/(Credited) to consolidated income statement *(note 11(a))*	**(3)**	**(19)**	**163**	**(15)**	**(5)**	**121**
Additions upon business combinations	**921**	**–**	**–**	**–**	**–**	**921**
Disposal of interests in subsidiaries *(note 42)*	**(480)**	**–**	**(705)**	**–**	**19**	**(1,166)**
Exchange differences	**(6)**	**–**	**(6)**	**–**	**(2)**	**(14)**
End of year	**2,406**	**145**	**(1)**	**(1,129)**	**21**	**1,442**

33 DEFERRED INCOME TAX *(CONTINUED)*

a. Movement in deferred income tax liabilities/(assets) during the year is as follows: *(continued)*

In HK$ million	The Group 2013	The Group **2014**
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	(919)	**(878)**
Deferred income tax assets to be recovered within 12 months	(159)	**(181)**
Net deferred income tax assets recognized in the consolidated statement of financial position	(1,078)	**(1,059)**
Deferred income tax liabilities:		
Deferred income tax liabilities to be recovered after more than 12 months	2,463	**2,279**
Deferred income tax liabilities to be recovered within 12 months	195	**222**
Net deferred income tax liabilities recognized in the consolidated statement of financial position	2,658	**2,501**
	1,580	**1,442**

b. During the year, deferred income tax assets of HK$16 million (2013: HK$443 million) had been recognized for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable. As at December 31, 2014, the Group had unutilized estimated tax losses for which no deferred income tax assets had been recognized of HK$9,927 million (2013: HK$11,248 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$35 million (2013: HK$227 million) and HK$980 million (2013: HK$201 million) will expire within 1–5 years and after 5 years from December 31, 2014 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

34 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2014, the Group had carrier licence fee liabilities payable as follows:

In HK$ million	The Group 2013 Present value of the minimum annual fees	2013 Interest expense relating to future periods	2013 Total minimum annual fees	**2014 Present value of the minimum annual fees**	**2014 Interest expense relating to future periods**	**2014 Total minimum annual fees**
Payable within a period						
– not exceeding one year	205	14	219	**429**	**32**	**461**
– over one year, but not exceeding two years	162	29	191	**370**	**74**	**444**
– over two years, but not exceeding five years	239	62	301	**307**	**117**	**424**
– over five years	204	96	300	**272**	**171**	**443**
	810	201	1,011	**1,378**	**394**	**1,772**
Less: Amounts payable within one year included under current liabilities	(205)	(14)	(219)	**(429)**	**(32)**	**(461)**
	605	187	792	**949**	**362**	**1,311**

35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	The Group 2013	2014
Profit before income tax	3,265	**5,474**
Adjustment for:		
(Write-back of provision)/Provision for inventory obsolescence	(10)	**10**
Interest income	(80)	**(90)**
Interest expense	925	**1,085**
Finance charges	179	**334**
Cash flow hedges: transferred from equity	1	**1**
Losses/(Gains) on fair value hedges	6	**(2)**
Depreciation of property, plant and equipment	2,347	**3,408**
Net gains from return of investment in available-for-sale financial assets	(64)	**(33)**
Net realized gains on disposal of available-for-sale financial assets	–	**(1)**
Net gains on cash flow hedging instruments transferred from equity	(9)	**(2)**
Net gains on fair value hedging instruments	(42)	**(47)**
Fair value gains on investment properties	(631)	**(656)**
Gain on disposal of subsidiaries	–	**(2,112)**
Recovery of impairment loss on an interest in a joint venture	(22)	**–**
Provision for impairment of available-for-sale financial assets	78	**12**
Provision for impairment of property held for development	–	**84**
Provision for impairment of an interest in an associate	–	**52**
(Gain)/Loss on disposal of property, plant and equipment, net	(9)	**2**
Impairment loss for doubtful debts	149	**187**
Amortization of intangible assets	2,200	**2,873**
Amortization of land lease premium		
– interests in leasehold land	24	**22**
Share of results of associates and joint ventures	(140)	**(50)**
Increase in treasury stock for the purchases of PCCW Shares under share award scheme	(42)	**(4)**
Decrease in equity for the purchases of Share Stapled Units under share award schemes	(35)	**(6)**
Decrease in non-controlling interests for the purchases of Share Stapled Units under share award schemes	(17)	**(3)**
Share-based compensation expenses	45	**96**
Pension cost for defined benefit retirement schemes	1	**7**
Decrease/(Increase) in operating assets		
– properties held for/under development/for sale	199	**(8)**
– inventories	(105)	**473**
– trade receivables	406	**(286)**
– prepayments, deposits and other current assets	(674)	**(450)**
– sales proceeds held in stakeholders' accounts	137	**13**
– restricted cash	287	**5**
– amounts due from related companies	19	**20**
– other non-current assets	(25)	**(35)**
(Decrease)/Increase in operating liabilities		
– trade payables, accruals and other payables and deferred income	(216)	**493**
– amount payable to the Government under the Cyberport Project Agreement	(438)	**1**
– amounts due to related companies	(10)	**(28)**
– advances from customers	4	**(219)**
– other long-term liabilities	(18)	**46**
CASH GENERATED FROM OPERATIONS	7,685	**10,666**
Interest received	42	**57**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(361)	**(84)**
– overseas profits tax paid	(54)	**(86)**
NET CASH GENERATED FROM OPERATING ACTIVITIES	7,312	**10,553**

35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Business combinations

In HK$ million	The Group 2013	**2014**
Net assets acquired:		
Property, plant and equipment	1	**1,993**
Intangible assets	–	**6,391**
Interest in a joint venture	–	**14**
Financial assets at fair value through profit or loss	1	**–**
Prepayments, deposits, trade receivables, net and other current and non-current assets	29	**1,574**
Defined benefit assets	–	**26**
Inventories	–	**202**
Cash and cash equivalents	16	**1,186**
Short-term borrowings	(1)	**–**
Trade payables	(12)	**(287)**
Accruals, other payables and carrier licence fee liabilities (current and non-current)	(6)	**(2,746)**
Advances from customers	(22)	**(622)**
Deferred income	–	**(64)**
Current income tax liabilities	(5)	**(308)**
Deferred income tax liabilities	–	**(921)**
	1	**6,438**
Non-controlling interests	–	**(36)**
	1	**6,402**
Goodwill on acquisitions	78	**13,627**
Purchase consideration	79	**20,029**
Satisfied by:		
Cash	65	**19,955**
Consideration payable	–	**74**
Acquisition-related contingent consideration payable	14	**–**
	79	**20,029**
Analysis of the net outflow of cash and cash equivalents in respect of business combinations:		
Purchase consideration settled in cash	(65)	**(19,955)**
Cash and cash equivalents of subsidiaries acquired	16	**1,186**
	(49)	**(18,769)**
Settlement of contingent consideration upon business combinations	–	**(14)**

35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

c. Disposal of interests in subsidiaries

During the year ended December 31, 2014, the Group disposed of its equity interests in certain subsidiaries to third parties. The net assets of these disposed subsidiaries at the date of disposal were as follows:

In HK$ million	The Group 2013	**2014**
Net assets disposed of:		
Property, plant and equipment	–	**67**
Investment property	–	**7,182**
Interests in leasehold land	–	**10**
Intangible asset	–	**31**
Restricted cash	–	**5**
Prepayments, deposits and other current assets	–	**69**
Inventories	–	**117**
Trade receivables, net	–	**238**
Cash and cash equivalents	–	**399**
Shareholder loan	–	**(1,983)**
Trade payables, accruals, other payables and deferred income	–	**(195)**
Advance from customers	–	**(177)**
Current income tax liabilities	–	**(11)**
Deferred income tax liabilities	–	**(1,166)**
	–	**4,586**
Non-controlling interests	–	**(124)**
	–	**4,462**
Consideration received from disposal of subsidiaries, net of tax	–	**7,492**
Assignment of shareholder loan	–	**(1,983)**
Carrying amount of net assets disposed of	–	**(4,462)**
Direct expenses in relation to the disposals	–	**(259)**
Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal	–	**1,324**
Gain on disposal of subsidiaries recognized in the consolidated income statement *(note 7)*	–	**2,112**
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Consideration settled by cash, net of tax	–	**7,492**
Less: Cash and cash equivalents disposed of	–	**(399)**
Less: Direct expenses in relation to the disposals	–	**(223)**
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	–	**6,870**

35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

d. Analysis of cash and cash equivalents

In HK$ million	The Group		The Company	
	2013	**2014**	2013	**2014**
Cash and bank balances	6,551	**8,965**	1,900	**1,093**
Short-term deposits	(10)	**–**	–	**–**
Restricted cash	(1,032)	**(1,022)**	–	**–**
Cash and cash equivalents as at December 31,	5,509	**7,943**	1,900	**1,093**

36 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and benefits for other stakeholders, to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("Adjusted Capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises share capital, special capital reserve, treasury stock, employee share-based compensation reserve, currency translation reserve, hedging reserve, available-for-sale financial assets reserve and other reserve.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

37 FINANCIAL INSTRUMENTS

The tables below analyze financial instruments by category:

In HK$ million	The Group 2013				
	Held-to-maturity investments	Loans and receivables	Derivatives used for hedging	Available-for-sale financial assets	Total
Non-current assets					
Held-to-maturity investments	1	–	–	–	1
Available-for-sale financial assets	–	–	–	706	706
Derivative financial instruments	–	–	67	–	67
Other non-current assets	–	45	–	–	45
	1	45	67	706	819
Current assets					
Sale proceeds held in stakeholders' accounts	–	541	–	–	541
Restricted cash	–	1,032	–	–	1,032
Prepayments, deposits and other current assets (excluding prepayments)	–	4,466	–	–	4,466
Amounts due from related companies	–	89	–	–	89
Trade receivables, net	–	3,501	–	–	3,501
Short-term deposits	–	10	–	–	10
Cash and cash equivalents	–	5,509	–	–	5,509
	–	15,148	–	–	15,148
Total	1	15,193	67	706	15,967

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	The Group 2013		
	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Short-term borrowings	–	1	1
Trade payables	–	2,118	2,118
Accruals and other payables	–	4,420	4,420
Amount payable to the Government under the Cyberport Project Agreement	–	521	521
Carrier licence fee liabilities	–	205	205
Amounts due to related companies	–	126	126
	–	7,391	7,391
Non-current liabilities			
Long-term borrowings	–	29,074	29,074
Derivative financial instruments	711	–	711
Carrier licence fee liabilities	–	605	605
Other long-term liabilities	–	549	549
	711	30,228	30,939
Total	711	37,619	38,330

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	The Group 2014				
	Held-to-maturity investments	**Loans and receivables**	**Derivatives used for hedging**	**Available-for-sale financial assets**	**Total**
Non-current assets					
Held-to-maturity investments	**1**	**–**	**–**	**–**	**1**
Available-for-sale financial assets	**–**	**–**	**–**	**754**	**754**
Other non-current assets	**–**	**271**	**–**	**–**	**271**
	1	**271**	**–**	**754**	**1,026**
Current assets					
Sale proceeds held in stakeholders' accounts	**–**	**528**	**–**	**–**	**528**
Restricted cash	**–**	**1,022**	**–**	**–**	**1,022**
Prepayments, deposits and other current assets (excluding prepayments)	**–**	**5,323**	**–**	**–**	**5,323**
Amounts due from related companies	**–**	**95**	**–**	**–**	**95**
Derivative financial instruments	**–**	**–**	**49**	**–**	**49**
Trade receivables, net	**–**	**4,497**	**–**	**–**	**4,497**
Cash and cash equivalents	**–**	**7,943**	**–**	**–**	**7,943**
	–	**19,408**	**49**	**–**	**19,457**
Total	**1**	**19,679**	**49**	**754**	**20,483**

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	The Group 2014 Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Short-term borrowings	–	4,823	4,823
Trade payables	–	2,331	2,331
Accruals and other payables	–	6,787	6,787
Amount payable to the Government under the Cyberport Project Agreement	–	522	522
Carrier licence fee liabilities	–	429	429
Amounts due to related companies	–	98	98
	–	14,990	14,990
Non-current liabilities			
Long-term borrowings	–	36,494	36,494
Derivative financial instruments	217	–	217
Carrier licence fee liabilities	–	949	949
Other long-term liabilities	–	342	342
	217	37,785	38,002
Total	217	52,775	52,992

In HK$ million	The Company Loans and receivables 2013	2014
Current assets		
Amounts due from subsidiaries	16,749	16,484
Prepayments, deposits and other current assets (excluding prepayments)	7	37
Cash and cash equivalents	1,900	1,093
Total	18,656	17,614

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	The Company 2013 Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Accruals and other payables	–	10	10
Non-current liabilities			
Long-term borrowings	–	1,575	1,575
Amount due to a subsidiary	–	2,010	2,010
Derivative financial instruments	306	–	306
	306	3,585	3,891
Total	306	3,595	3,901

In HK$ million	The Company **2014** **Derivatives used for hedging**	**Other financial liabilities at amortized cost**	**Total**
Current liabilities			
Short-term borrowings	**–**	**946**	**946**
Accruals and other payables	**–**	**11**	**11**
	–	**957**	**957**
Non-current liabilities			
Long-term borrowings	**–**	**1,778**	**1,778**
Amount due to a subsidiary	**–**	**2,167**	**2,167**
Derivative financial instruments	**117**	**–**	**117**
	117	**3,945**	**4,062**
Total	**117**	**4,902**	**5,019**

Exposures to credit, liquidity, and market risks (including foreign currency risk and interest rate risk) arise in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Group's financial management policies and practices described below.

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Credit risk

The Group's credit risk is primarily attributable to trade receivables, amounts due from related companies, interest receivable, foreign exchange and swap contracts and cash transactions entered into for risk and cash management purposes. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

Trade receivables in respect of properties sold are payable by the purchasers pursuant to the terms of the sales contracts. Other 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 Group maintains 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 payable are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2013 and 2014, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 25(e).

Amounts due from related companies and other receivables 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, 2013 and 2014, the amounts due from related companies and other receivables 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 Group does 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 statement of financial position. Except for the guarantees given by the Group as disclosed in note 39, the Group does not provide any other guarantees which would expose the Group to credit risk.

b. Liquidity risk

The Group's 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 Group has sufficient cash and committed facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries in the normal course of their businesses. Please refer to note 39 for details.

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's and the Company's 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 end of the reporting period) and the earliest date the Group and the Company can be required to pay:

In HK$ million	The Group 2013					
	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 inflow/ (outflow)	Carrying amount
Current liabilities						
Short-term borrowings	(1)	–	–	–	(1)	(1)
Trade payables	(2,118)	–	–	–	(2,118)	(2,118)
Accruals and other payables	(4,420)	–	–	–	(4,420)	(4,420)
Amount payable to the Government under the Cyberport Project Agreement	(521)	–	–	–	(521)	(521)
Carrier licence fee liabilities	(219)	–	–	–	(219)	(205)
Amounts due to related companies	(126)	–	–	–	(126)	(126)
	(7,405)	–	–	–	(7,405)	(7,391)
Non-current liabilities						
Long-term borrowings	(847)	(7,713)	(17,640)	(6,988)	(33,188)	(29,074)
Derivative financial instruments	68	45	(193)	(808)	(888)	(711)
Carrier licence fee liabilities	–	(191)	(301)	(300)	(792)	(605)
Other long-term liabilities	(13)	(331)	(35)	(255)	(634)	(549)
	(792)	(8,190)	(18,169)	(8,351)	(35,502)	(30,939)
Total	(8,197)	(8,190)	(18,169)	(8,351)	(42,907)	(38,330)

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	The Group 2014					
	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 inflow/ (outflow)**	**Carrying amount**
Current liabilities						
Short-term borrowings	**(4,951)**	**–**	**–**	**–**	**(4,951)**	**(4,823)**
Trade payables	**(2,331)**	**–**	**–**	**–**	**(2,331)**	**(2,331)**
Accruals and other payables	**(6,787)**	**–**	**–**	**–**	**(6,787)**	**(6,787)**
Amount payable to the Government under the Cyberport Project Agreement	**(522)**	**–**	**–**	**–**	**(522)**	**(522)**
Carrier licence fee liabilities	**(461)**	**–**	**–**	**–**	**(461)**	**(429)**
Amounts due to related companies	**(98)**	**–**	**–**	**–**	**(98)**	**(98)**
	(15,150)	**–**	**–**	**–**	**(15,150)**	**(14,990)**
Non-current liabilities						
Long-term borrowings	**(805)**	**(12,358)**	**(20,259)**	**(6,784)**	**(40,206)**	**(36,494)**
Derivative financial instruments	**66**	**19**	**(119)**	**(216)**	**(250)**	**(217)**
Carrier licence fee liabilities	**–**	**(444)**	**(424)**	**(443)**	**(1,311)**	**(949)**
Other long-term liabilities	**(29)**	**(13)**	**(233)**	**(157)**	**(432)**	**(342)**
	(768)	**(12,796)**	**(21,035)**	**(7,600)**	**(42,199)**	**(38,002)**
Total	**(15,918)**	**(12,796)**	**(21,035)**	**(7,600)**	**(57,349)**	**(52,992)**

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	The Company 2013					
	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 inflow/ (outflow)	Carrying amount
Current liabilities						
Accruals and other payables	(10)	–	–	–	(10)	(10)
	(10)	–	–	–	(10)	(10)
Non-current liabilities						
Long-term borrowings	(32)	(1,607)	–	–	(1,639)	(1,575)
Amount due to a subsidiary	(112)	(112)	(336)	(2,700)	(3,260)	(2,010)
Derivative financial instruments	22	13	(80)	(343)	(388)	(306)
	(122)	(1,706)	(416)	(3,043)	(5,287)	(3,891)
Total	(132)	(1,706)	(416)	(3,043)	(5,297)	(3,901)

In HK$ million	The Company **2014**					
	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 inflow/ (outflow)**	**Carrying amount**
Current liabilities						
Short-term borrowings	**(959)**	**–**	**–**	**–**	**(959)**	**(946)**
Accruals and other payables	**(11)**	**–**	**–**	**–**	**(11)**	**(11)**
	(970)	**–**	**–**	**–**	**(970)**	**(957)**
Non-current liabilities						
Long-term borrowings	**(34)**	**(34)**	**(1,910)**	**–**	**(1,978)**	**(1,778)**
Amount due to a subsidiary	**(112)**	**(112)**	**(336)**	**(2,589)**	**(3,149)**	**(2,167)**
Derivative financial instruments	**21**	**9**	**(32)**	**(131)**	**(133)**	**(117)**
	(125)	**(137)**	**(2,278)**	**(2,720)**	**(5,260)**	**(4,062)**
Total	**(1,095)**	**(137)**	**(2,278)**	**(2,720)**	**(6,230)**	**(5,019)**

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does 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 Group 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 Group, 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 Group.

In the normal course of business, the Group uses 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 major currencies.

i. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposure. Foreign exchange risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2013 and 2014, majority of the Group's borrowings denominated in foreign currencies 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 Group's borrowings. Certain portion of the cross currency swap contracts outstanding as at December 31, 2014 with an aggregate notional contract amount of US$1,300 million (approximately HK$10,087 million) (2013: US$1,300 million (approximately HK$10,081 million)) were designated as cash flow hedges and fair value 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 Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary to address short-term imbalances.

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following tables detail the Group's and the Company's exposure at the end of the reporting period to currency risk arising from significant recognized financial assets or liabilities denominated in foreign currencies.

In HK$ million	The Group			
	2013		**2014**	
	United States Dollars	Chinese Renminbi	**United States Dollars**	**Chinese Renminbi**
Available-for-sale financial assets	503	–	**650**	**–**
Amounts due from related companies	–	20	**–**	**13**
Trade receivables	547	521	**1,078**	**287**
Cash and cash equivalents	864	1,020	**3,184**	**454**
Trade payables	(482)	(364)	**(975)**	**(217)**
Amounts due to related companies	(211)	–	**(94)**	**–**
Short-term borrowings	–	–	**(3,877)**	**–**
Long-term borrowings	(13,219)	–	**(9,785)**	**–**
Gross exposure arising from recognized financial (liabilities)/assets	(11,998)	1,197	**(9,819)**	**537**
Net financial assets denominated in respective entities' functional currencies	(608)	(1,206)	**(809)**	**(510)**
Notional amounts of cross currency swap contracts designated as cash flow hedges and fair value hedges	10,081	–	**10,087**	**–**
Overall net exposure	(2,525)	(9)	**(541)**	**27**

In HK$ million	The Company			
	2013		**2014**	
	United States Dollars	Chinese Renminbi	**United States Dollars**	**Chinese Renminbi**
Cash and cash equivalents	16	1	**264**	**34**
Amount due to a subsidiary	(2,010)	–	**(2,167)**	**–**
Gross exposure arising from recognized financial (liabilities)/assets	(1,994)	1	**(1,903)**	**34**
Notional amounts of cross currency swap contracts designated as cash flow hedges and fair value hedges	2,326	–	**2,328**	**–**
Overall net exposure	332	1	**425**	**34**

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

As at December 31, 2014, if Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the Group's profit after tax for the year would have been decreased/increased by approximately HK$5 million (2013: HK$21 million) and the Company's profit after tax for the year would have been increased/decreased by approximately HK$4 million (2013: HK$3 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 of the Group as at December 31, 2014 would have been decreased/increased by approximately HK$39 million (2013: HK$39 million) and, there would have no impact to the hedging reserve of the Company as at December 31, 2013 and 2014, mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts.

As at December 31, 2014, if Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, the Group's and the Company's profit after tax for the year would have been increased/decreased by approximately HK$1 million (2013: an immaterial amount) respectively, mainly as a result of foreign exchange gains/losses on translation of Chinese Renminbi denominated recognized assets and liabilities which are not hedged by hedging instruments.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the Group's and the Company's exposure to currency risk for recognized assets and liabilities in existence at the date, 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 period until the end of the next annual reporting period. 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 2013.

ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Group has entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from certain of its fixed rate long-term borrowings.

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

The following table details the interest rate profile of the Group's and the Company's borrowings and the Company's amount due to a subsidiary at the end of the reporting period, 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 Group				The Company			
	2013		**2014**		2013		**2014**	
	Effective interest rate %		**Effective interest rate %**		Effective interest rate %		**Effective interest rate %**	
Net fixed rate borrowings:								
Short-term borrowings with cash flow hedging instruments	–	–	**5.42**	**3,877**	–	–	**–**	**–**
Long-term borrowings with cash flow hedging instruments	5.42	3,868	**–**	**–**	–	–	**–**	**–**
Fixed rate guaranteed notes	3.17	3,961	**3.17**	**3,924**	–	–	**–**	**–**
		7,829		**7,801**		–		**–**
Variable rate borrowings:								
Bank borrowings	1.77	15,856	**1.59**	**27,655**	2.06	1,575	**1.82**	**2,724**
Long-term borrowings with fair value hedging instruments	4.70	5,390	**4.70**	**5,861**	–	–	**–**	**–**
Variable rate balance with a subsidiary:								
Amount due to a subsidiary with fair value hedging instruments	–	–	**–**	**–**	5.97	2,010	**5.97**	**2,167**
		21,246		**33,516**		3,585		**4,891**
Total borrowings		29,075		**41,317**		3,585		**4,891**

At December 31, 2014, if interest rates on variable rate borrowings had been increased/decreased by 10 basis points, with all other variables held constant, the Group's and the Company's profit after tax for the year would have been decreased/increased by approximately HK$23 million (2013: HK$16 million) and HK$3 million (2013: HK$3 million) respectively, 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 end of the reporting period and had been applied to the exposure to interest rate risk for the Group's and the Company's floating rate borrowings in existence at that date. The 10 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis was performed on the same basis for 2013.

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (see note 24). Other than unquoted equity securities held for strategic purposes, all of these investments are listed on a recognized stock exchange.

To manage its equity price risk, the portfolio is diversified in accordance with the limits set by the Group. Given the insignificant portfolio of listed equity securities held by the Group, management believes that the Group's equity price risk is minimal.

Performance of the Group's unquoted investments held for long term strategic purposes is assessed at least semi-annually against performance of their business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

d. Fair values of financial liabilities measured at amortized cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2013 and 2014 except as follows, with fair value calculated by quoted prices:

In HK$ million	The Group			
	2013		**2014**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Short-term borrowings	(1)	(1)	**(4,823)**	**(4,909)**
Long-term borrowings	(29,074)	(29,893)	**(36,494)**	**(37,059)**

The fair values of short-term and long-term borrowings are the net present value of the estimated future cash flows discounted at the prevailing market rates. The fair values are within level 2 of the fair value hierarchy.

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values

The tables below analyze 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 included within level 1 that are observable for the asset or liability, 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).

In HK$ million	The Group 2013 Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	197	–	–	197
– Unlisted equity securities	–	–	509	509
Derivative financial instruments (non-current)	–	67	–	67
Total assets	197	67	509	773
Liabilities				
Derivative financial instruments (non-current)	–	(711)	–	(711)

In HK$ million	The Group **2014** **Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets				
– Listed equity securities	**104**	**–**	**–**	**104**
– Unlisted equity securities	**–**	**–**	**650**	**650**
Derivative financial instruments (current)	**–**	**49**	**–**	**49**
Total assets	**104**	**49**	**650**	**803**
Liabilities				
Derivative financial instruments (non-current)	**–**	**(217)**	**–**	**(217)**

In HK$ million	The Company **Level 2** 2013	**2014**
Liabilities		
Derivative financial instruments (non-current)	(306)	**(117)**

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group included in level 1 is the current bid price. Instruments included in level 1 comprise primarily available-for-sale financial assets listed on the Alternative Investment Market operated by London Stock Exchange plc.

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. Instruments included in level 2 comprise cross currency swap contracts. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Instruments included in level 3 comprise available-for-sale financial assets for equity investments in several private companies.

For unlisted securities or financial assets without an active market, the Group establish the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the statement of financial position at cost less impairment losses.

The key assumptions adopted in the valuation models include market multiples, discount rates and growth rates which are based on historical pattern and industry trends of comparable companies. The fair values of these investments may differ significantly if there are material changes to the underlying assumptions applied in the relevant fair valuation models.

Key assumptions used for the valuations of these unlisted investments are:

– Market multiples (based on price earnings multiples or enterprise value/earnings before interest and tax multiples of comparable companies): 3–20 (2013: 20–60)
– Liquidity discount: 15% – 30% (2013: 15% – 30%)
– Market size discount: 15% – 70% (2013: 15% – 70%)
– Future growth rates: 10% – 50% (2013: 10% – 50%)

There were no significant transfers of financial assets and liabilities between fair value hierarchy classifications during the year ended December 31, 2014.

There were no changes in valuation techniques from December 31, 2013.

The following table presents the changes in level 3 instruments for the year ended December 31, 2014:

In HK$ million	The Group **Available-for-sale financial assets – unlisted equity securities**	
	2013	**2014**
Beginning of year	587	**509**
Additions	37	**176**
Return of investments	(131)	**(28)**
Unrealized fair value gains transferred to equity	93	**5**
Impairment loss recognized	(77)	**(12)**
End of year	509	**650**

The estimated fair value of level 3 financial assets as at December 31, 2014 was HK$650 million (2013: HK$509 million).

During the year ended December 31, 2014, provision for impairment of HK$12 million (2013: HK$77 million) was included in other gains, net in the consolidated income statement and there was no transfer (2013: a transfer of HK$1 million) from equity to the consolidated income statement on impairment.

37 FINANCIAL INSTRUMENTS *(CONTINUED)*

f. Group's valuation process

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes, including level 3 fair values. Valuation results are reviewed by senior management semi-annually, in line with the Group's reporting dates.

The main level 3 input used by the Group pertains to the use of recent arm's length transactions, reference to portfolio statement, and reference to other listed instruments that are substantially the same, adjusted for the marketability discount on the Group's investments. The higher the marketability discount, the lower the fair value.

38 COMMITMENTS

a. Capital

In HK$ million	The Group	
	2013	**2014**
Authorized and contracted for	1,773	**2,396**
Authorized but not contracted for	860	**1,288**
	2,633	**3,684**

An analysis of the above capital commitments by nature is as follows:

In HK$ million	The Group	
	2013	**2014**
Investments	283	**208**
Investment properties	114	**1,616**
Intangible assets	23	**–**
Property development projects	49	**47**
Acquisition of property, plant and equipment	2,164	**1,813**
	2,633	**3,684**

38 COMMITMENTS *(CONTINUED)*

b. Operating leases

As at December 31, 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	The Group 2013	**2014**
Within 1 year	934	**1,504**
After 1 year but within 5 years	1,492	**1,821**
After 5 years	465	**536**
	2,891	**3,861**

Network capacity and equipment

In HK$ million	The Group 2013	**2014**
Within 1 year	1,057	**1,288**
After 1 year but within 5 years	699	**752**
After 5 years	300	**264**
	2,056	**2,304**

Majority of the leases typically run for a period of 1 to 15 years. None of the leases include contingent rentals.

c. Others

As at December 31, 2014, the Group has other outstanding commitments as follows:

In HK$ million	The Group 2013	**2014**
Purchase of rights to broadcast certain TV content	2,205	**1,752**
Operating expenditure commitment	227	**2,177**
	2,432	**3,929**

39 CONTINGENT LIABILITIES

In HK$ million	The Group		The Company	
	2013	**2014**	2013	**2014**
Performance guarantees	399	**2,338**	146	**189**
Tender guarantees	–	**52**	–	**–**
Guarantees given for notes issued by a subsidiary	–	**–**	2,326	**2,328**
Guarantees given to banks in respect of credit facilities granted to an associate	64	**62**	–	**–**
Guarantees in lieu of cash deposit	4	**10**	2	**1**
Employee compensation	10	**16**	10	**16**
Guarantees indemnity	11	**11**	–	**–**
Others	10	**–**	–	**–**
	498	**2,489**	2,484	**2,534**

The Group is subject to certain corporate guarantee obligations to guarantee performance of its 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 Group.

40 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2014 were HK$39,564 million (2013: HK$24,150 million) of which the unused facilities amounted to HK$11,647 million (2013: HK$8,134 million).

A summary of short-term and long-term borrowings is set out in notes 25(f) and 26.

Security pledged for certain bank loan facilities includes:

In HK$ million	The Group	
	2013	**2014**
Property, plant and equipment	39	**–**
Investment properties	6,603	**1,848**
Prepayment, deposits and other current assets	–	**182**
Cash and cash equivalents	–	**20**
Short-term deposits	5	**–**
Restricted cash	10	**–**
	6,657	**2,050**

a. Performance guarantee of approximately HK$166 million in relation to the construction of office building in Jakarta, Indonesia was pledged for certain banking facilities as at December 31, 2014.

41 BUSINESS COMBINATIONS

a. Business combinations during the year ended December 31, 2014

i. Acquisition of the CSL Group

On May 14, 2014, the Group completed the acquisition of the entire issued share capital of CSL Holdings Limited, a company incorporated in Bermuda, and its subsidiaries. The purpose of the acquisition is to bolster the Group's telecommunications business and continue to meet the needs of Hong Kong public and local and international businesses with a wide range of telecommunications services through 4G, 3G and 2G networks, and the sales of mobile telecommunications products, to customers in Hong Kong. The estimated aggregate consideration (which is subject to potential adjustments regarding the amount of net working capital of the CSL Group, if any, upon finalization of its audited completion accounts) was approximately US$2,580 million (approximately HK$20,017 million) which was recognized in the accounts for the acquisition. A payment of US$2,572 million (approximately HK$19,943 million) has been made by the Group in May 2014 upon the completion of the acquisition. The remaining balance is recorded as consideration payable as at December 31, 2014.

The Group is required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Group has used the estimated fair values of the acquired assets and liabilities with the excess of the cost of acquisition over these estimated fair values being recorded as goodwill. This allocation of the purchase price to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2015 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2015.

(i) Details of net assets acquired and goodwill in respect of acquisition of the CSL Group at the acquisition date were as follows:

In HK$ million	**Net assets acquired and goodwill**
Purchase consideration settled in cash	**19,943**
Consideration payable	**74**
Aggregate purchase consideration	**20,017**
Less: Estimated fair value of net assets acquired	**(6,402)**
Goodwill on acquisition	**13,615**

The goodwill is attributable to the expected future profits generated from the telecommunications business strengthened by enhancement of mobile services income stream through increased economies of scale, enlargement of service capacity and improvement of indoor signal coverage and customer experience, strengthening of roaming business and opportunity to realize operational synergies.

None of the goodwill is expected to be deductible for tax purposes.

41 BUSINESS COMBINATIONS *(CONTINUED)*

a. Business combinations during the year ended December 31, 2014 *(continued)*

i. Acquisition of the CSL Group *(continued)*

(i) Details of net assets acquired and goodwill in respect of acquisition of the CSL Group at the acquisition date were as follows: *(continued)*

The assets and liabilities of the CSL Group at the acquisition date were as follows:

In HK$ million	Estimated fair value
Property, plant and equipment	**1,992**
Intangible assets	**6,391**
Interests in a joint venture	**14**
Prepayments, deposits, trade receivables, net and other current and non-current assets	**1,574**
Defined benefit assets	**26**
Inventories	**202**
Cash and cash equivalents	**1,186**
Trade payables	**(287)**
Accruals, other payables and carrier licence fee liabilities (current and non-current)	**(2,745)**
Advances from customers	**(622)**
Deferred income	**(64)**
Current income tax liabilities	**(308)**
Deferred income tax liabilities	**(921)**
	6,438
Non-controlling interests	**(36)**
Net assets acquired	**6,402**

In HK$ million	Net cash outflow
Purchase consideration settled in cash	**19,943**
Less: Cash and cash equivalents of the CSL Group acquired	**(1,186)**
	18,757

(ii) Revenue and profit contribution

CSL Group's revenue and profit attributable to equity holders for the period from January 1, 2014 to the acquisition date were HK$2,942 million and HK$234 million, respectively. The business of the CSL Group has been integrated into the Group since its acquisition date. Accordingly, it is not practical to quantify the individual contribution of the CSL Group to the revenue and profit of the Group during the year ended December 31, 2014 on any reasonable basis.

ii. Acquisition of Crypteia Networks S.A.

On October 20, 2014, the Group completed the acquisition of the entire issued share capital of Crypteia Networks S.A., a private company incorporated in Greece. Leverage on acquiree's advanced cyber threat detective capabilities, the acquisition helps to position the Group as a leading network security player in the market. The aggregate consideration was not material.

41 BUSINESS COMBINATIONS *(CONTINUED)*

b. Business combinations during the year ended December 31, 2013

i. Acquisition of Compass Solutions Holdings Limited and its subsidiaries (together the "Compass Group")

On May 2, 2013, the Group completed the acquisition of 100% of the share capital of Compass Solutions Holdings Limited, a company incorporated in the British Virgin Islands, and its subsidiaries. The purpose of the acquisition is to expand the Group's system integration business. The businesses of the acquired companies cover system implementation and integration, sales of licence, provision of maintenance services and training. The Group made an initial payment for acquisition totaling approximately HK$65 million in cash and may have to make additional payments totaling up to approximately HK$14 million in cash if the businesses of the acquired companies achieve certain financial milestones within a specified period. The fair value of this contingent consideration is estimated at approximately HK$14 million and has been included in the purchase price of the Compass Group. The contingent consideration of approximately HK$14 million was subsequently settled in cash during the year ended December 31, 2014.

The Group is required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. The accounting for the acquisition of the Compass Group was completed as at December 31, 2014 and the fair values of the acquirees' identifiable assets, liabilities and contingent liabilities are concluded to be the same as their provisional amounts as at acquisition date. As a result, no adjustment to the provisional amounts and goodwill for the year ended December 31, 2014 is required.

(i) Details of net assets acquired and goodwill in respect of acquisition of the Compass Group at the acquisition date were as follows:

In HK$ million

	Net assets acquired and goodwill
Purchase consideration settled in cash in 2013	65
Contingent consideration accrued in 2013 and paid in 2014	14
Aggregate purchase consideration	79
Less: Fair value of net assets acquired	(1)
Goodwill on acquisition	78

The goodwill is attributable to the expected future profit generated from the system integration business. The acquisition of the Compass Group has added a professional team with in-depth expertise in SAP implementation and training, enabling the Group to further expand its enterprise resource planning capabilities and geographical presence.

None of the goodwill is expected to be deductible for tax purposes.

41 BUSINESS COMBINATIONS *(CONTINUED)*

b. Business combinations during the year ended December 31, 2013 *(continued)*

i. Acquisition of Compass Solutions Holdings Limited and its subsidiaries (together the "Compass Group") *(continued)*

(i) Details of net assets acquired and goodwill in respect of acquisition of the Compass Group at the acquisition date were as follows: *(continued)*

The assets and liabilities of the Compass Group at the acquisition date were as follows:

In HK$ million	Fair value
Property, plant and equipment	1
Financial assets at fair value through profit or loss	1
Trade receivables, prepayments, deposits and other current assets	29
Cash and cash equivalents	16
Short-term borrowings	(1)
Trade payables, accruals, other payables and advances from customers	(40)
Current income tax liabilities	(5)
Net assets acquired	1

In HK$ million	Net cash outflow
Purchase consideration settled in cash	65
Less: Cash and cash equivalents of the Compass Group acquired	(16)
	49
Contingent consideration settled in cash in 2014	14

At the acquisition date, the fair value of trade receivables was HK$13 million. The gross contractual amount for trade receivables due was HK$19 million, of which HK$6 million was expected to be uncollectible.

(ii) Acquisition-related costs

Acquisition-related costs of HK$1 million were included in the consolidated income statement for the year ended December 31, 2013.

(iii) Revenue and profit contribution

The businesses of the acquired companies contributed revenue of approximately HK$95 million and net profit of approximately HK$24 million to the Group for the period from the date of acquisition to December 31, 2013. If the acquisition had occurred on January 1, 2013, the acquired companies' revenue and net profit for the year ended December 31, 2013 would have been approximately HK$136 million and approximately HK$17 million, respectively.

42 DISPOSAL OF INTERESTS IN SUBSIDIARIES

a. Disposal of Gain Score Limited and its subsidiaries (together the "Gain Score Group")

On April 8, 2014, the PCPD Group entered into a sale and purchase agreement ("SPA") pursuant to which the PCPD Group has agreed to sell the entire issued share capital of Gain Score Limited, an indirect non-wholly owned subsidiary of the Company, and to assign a shareholder loan which was made by the PCPD Group to Gain Score Limited to an independent third party for an initial aggregated consideration of US$928 million (equivalent to approximately HK$7,201 million), subject to adjustments in accordance with the SPA. The principal assets of the Gain Score Group are the land use rights and property rights in the investment property known as "Pacific Century Place, Beijing" located in mainland China.

42 DISPOSAL OF INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. Disposal of Gain Score Limited and its subsidiaries (together the "Gain Score Group") *(continued)*

The transaction was completed in August 2014, and the final consideration received was US$939 million (equivalent to approximately HK$7,281 million) after adjustments in accordance with the SPA.

Details of net assets disposed of and the gain on disposal of interests in the Gain Score Group at the date of disposal were as follows:

In HK$ million

	Net assets disposed of and the gain on disposal
Consideration settled by cash, net of direct expenses	**7,058**
Assignment of shareholder loan	**(1,983)**
Less: Carrying amount of net assets disposed of	**(4,263)**
Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal	**1,245**
Gain on disposal recognized in the consolidated income statement *(note 7)*	**2,057**

The assets and liabilities of the Gain Score Group at the date of disposal were as follows:

In HK$ million

	Note	**Carrying amount**
Property, plant and equipment	15	**62**
Investment property	16	**7,182**
Interests in leasehold land	17	**10**
Intangible asset	20	**31**
Restricted cash		**5**
Prepayments, deposits and other current assets		**11**
Trade receivables, net		**4**
Cash and cash equivalents		**208**
Shareholder loan		**(1,983)**
Accruals, other payables and deferred income		**(97)**
Current income tax liabilities		**(4)**
Deferred income tax liabilities	33(a)	**(1,166)**
Net assets disposed of		**4,263**

In HK$ million

	Net cash inflow
Consideration settled by cash, net of direct expenses	**7,058**
Less: Cash and cash equivalents of the Gain Score Group disposed of	**(208)**
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	**6,850**

42 DISPOSAL OF INTERESTS IN SUBSIDIARIES *(CONTINUED)*

b. Disposal of Unihub China Information Technology Company Limited

On October 14, 2014, the Group entered into a sale and purchase agreement pursuant to which the Group has agreed to sell its entire equity interests in Unihub China Information Technology Company Limited ("Unihub China"), an indirect non-wholly owned subsidiary of the Company, to an independent third party for an aggregated consideration of RMB180 million (equivalent to approximately HK$225 million).

The transaction was completed in December 2014.

Details of net assets disposed of and the gain on disposal of interests in Unihub China at the date of disposal were as follows:

In HK$ million

	Net assets disposed of and the gain on disposal
Consideration received from disposal of interests in Unihub China	**225**
Less: PRC withholding tax	**(14)**
Less: Carrying amount of net assets disposed of	**(199)**
Less: Direct expenses in relation to the disposal	**(36)**
Exchange gain on translating foreign operations transferred to consolidated income statement upon disposal	**79**
Gain on disposal recognized in the consolidated income statement *(note 7)*	**55**

The assets and liabilities of Unihub China at the date of disposal were as follows:

In HK$ million

	Note	**Carrying amount**
Property, plant and equipment	15	**5**
Prepayments, deposits and other current assets		**58**
Inventories		**117**
Trade receivables, net		**234**
Cash and cash equivalents		**191**
Trade payables, accruals and other payables		**(98)**
Advance from customers		**(177)**
Current income tax liabilities		**(7)**
		323
Non-controlling interests		**(124)**
Net assets disposed of		**199**

In HK$ million

	Net cash inflow
Consideration settled by cash, net of tax	**211**
Less: Cash and cash equivalents of Unihub China disposed of	**(191)**
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	**20**

43 TRANSACTION WITH NON-CONTROLLING INTERESTS

a. Disposal of interests in PCPD without loss of control during the year ended December 31, 2014

In HK$ million	2013	**2014**
Consideration received from disposal of interests in PCPD	–	**61**
Carrying amount of interests in PCPD disposed of	–	**(37)**
Gain on disposal recognized within equity	–	**24**

During the year ended December 31, 2014, the Group disposed of a total of 11,178,000 ordinary shares of PCPD at the aggregate consideration of approximately HK$61 million in cash. The total carrying amount of the interests in PCPD disposed of on the dates of the disposal was approximately HK$37 million. The Group recognized an increase in equity attributable to the equity holders of the Company of approximately HK$24 million. Immediately after the disposals, the Group holds approximately 71.7% of the ordinary shares of PCPD.

The Group also holds non-redeemable bonus convertible notes with conversion rights to acquire ordinary shares of PCPD. As the non-redeemable bonus convertible notes contain rights to dividends and other distributions similar to ordinary shares and can be converted at any time provided that the public float requirements could be complied with, the Company consolidates the results of PCPD on its approximately 92.9% economic interest after taking into account the non-redeemable bonus convertible notes on an as-converted basis in accordance with HKFRSs.

The disposal of ordinary shares of PCPD constituted a reduction of approximately 0.7% economic interest in PCPD from approximately 93.6% to approximately 92.9% on an as-converted basis immediately after the disposals.

b. Transaction with non-controlling interests during the year ended December 31, 2013

During the year ended December 31, 2013, there were loans raised from the non-controlling shareholders to a non-wholly owned subsidiary totaling HK$11 million bearing interest at 2% per annum.

The loan was repayable within one year as at December 31, 2014 (2013: repayable over one year but not exceeding two years).

44 SUBSEQUENT EVENT

In January 2015, HKT Capital No. 1 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$300 million (approximately HK$2,328 million) 15-year zero coupon guaranteed notes due 2030 which are listed on the GreTai Securities Market in Taiwan, China for general corporate purposes including the repayment of existing indebtedness. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

45 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS AND NEW ORDINANCES ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2014

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, 2014 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions	July 1, 2014
HKAS 16 (Amendment)	Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
HKAS 16 (Amendment)	Property, Plant and Equipment – Agriculture: Bearer Plants	January 1, 2016
HKAS 27 (2011) (Amendment)	Separate Financial Statements – Equity Method in Separate Financial Statements	January 1, 2016
HKAS 28 (2011) (Amendment)	Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
HKAS 38 (Amendment)	Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
HKAS 41 (Amendment)	Agriculture: Bearer Plants	January 1, 2016
HKFRS 10 (Amendment)	Consolidated Financial Statements – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
HKFRS 11 (Amendment)	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
HKFRS 14	Regulatory Deferral Accounts	January 1, 2016
HKFRS 15	Revenue from Contracts with Customers	January 1, 2017
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
Annual Improvements to 2010-2012 Cycle published in January 2014 by HKICPA		July 1, 2014
Annual Improvements to 2011-2013 Cycle published in January 2014 by HKICPA		July 1, 2014
Annual Improvements to 2012-2014 Cycle published in October 2014 by HKICPA		January 1, 2016

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, 2014 and have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new or revised standards, new interpretations and the new ordinances would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards, new interpretations and the new ordinances would have a significant impact on the Group's results of operations and financial position.

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2014

Results In HK$ million	2010*	2011*	2012	2013	**2014**
Turnover	22,962	24,638	25,318	27,317	**33,277**
Cost of sales	(10,533)	(11,397)	(11,816)	(13,111)	**(15,151)**
General and administrative expenses	(8,924)	(9,604)	(10,150)	(10,735)	**(14,091)**
Other gains, net	1,217	143	371	685	**2,717**
Interest income	27	71	62	80	**90**
Finance costs	(1,587)	(1,565)	(966)	(1,111)	**(1,418)**
Share of results of equity accounted entities	(82)	32	(22)	140	**50**
Profit before income tax	3,080	2,318	2,797	3,265	**5,474**
Income tax	(756)	(542)	(232)	(210)	**(803)**
Profit for the year	2,324	1,776	2,565	3,055	**4,671**
Attributable to:					
Equity holders of the Company	1,926	1,607	1,661	1,885	**3,310**
Non-controlling interests	398	169	904	1,170	**1,361**

Assets and Liabilities As at December 31, in HK$ million	2010*	2011	2012	2013	**2014**
Total non-current assets	29,387	30,909	33,070	36,358	**51,648**
Total current assets	18,746	14,941	16,774	17,579	**21,391**
Total current liabilities	(17,744)	(10,747)	(19,412)	(10,658)	**(19,018)**
Net current assets/(liabilities)	1,002	4,194	(2,638)	6,921	**2,373**
Total assets less current liabilities	30,389	35,103	30,432	43,279	**54,021**
Total non-current liabilities	(30,997)	(27,656)	(22,294)	(34,646)	**(41,652)**
Net (liabilities)/assets	(608)	7,447	8,138	8,633	**12,369**

Distributable Reserves of the Company As at December 31, in HK$ million	2010	2011	2012	2013	**2014**
Distributable reserves of the Company	19,521	17,120	17,418	15,874	**17,912**

* Comparative figures of the results ended December 31, 2010 and 2011 and assets and liabilities as at December 31, 2010 have not been restated to reflect the adoption of HKAS19 (2011) as the directors are of the opinion that it is impracticable to do so.

SCHEDULE OF PRINCIPAL PROPERTIES

Year 2014

Property	Classification	Status	Expected date of completion	Intended Use	Gross Site Area (sq.m.)	Gross Floor Area (sq.m.)	Group's Interest
Japan							
328-1 Aza Iwaobetsu, Kutchan-cho, Abuta-gun, Hokkaido, Japan	Properties under development	Design phase	Not applicable	For commercial and residential	788,510	619,705	70.8%

Property	Classification	Gross Site Area (sq.m.)	Lease Term*	Group's Interest
Thailand				
Moo 3 & 9, Thai Muang Subdistrict, Thai Muang District Phang-nga, 82120, Thailand	Properties held for development	1,700,465	Long	70.8%

Property	Classification	Status	Existing/ Intended Use	Gross Site Area (sq.m.)	Approximate Gross Floor Area (sq.m.)	Lease Term*	Group's Interest
Hong Kong							
Part of 18th Floor of Paramount Building, No.12 Ka Yip Street, Chai Wan, Hong Kong	Investment properties	Existing	For lease	Not applicable	520	Medium	100%
Indonesia							
Jenderal Sudirman Kav., No. 52-53 Lot 10 Senayan, Kebayoran Baru, South Jakarta, Indonesia	Investment properties	Excavation for basement (completion expected in 2017)	For commercial	9,277	90,500	Medium	70.8%

* Lease term:
Long-term: Lease not less than 50 years
Medium-term: Lease less than 50 years but not less than 10 years

INVESTOR RELATIONS

DIRECTORS

The directors of the Company as at the date of the announcement of the 2014 Annual Results are:

Executive Directors:
Li Tzar Kai, Richard *(Chairman)*
Srinivas Bangalore Gangaiah (aka BG Srinivas) *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*
Lee Chi Hong, Robert

Non-Executive Directors:
Sir David Ford, KBE, LVO
Tse Sze Wing, Edmund, GBS
Lu Yimin *(Deputy Chairman)*
Li Fushen
Zhang Junan
Wei Zhe, David

Independent Non-Executive Directors:
Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP
Aman Mehta
Frances Waikwun Wong
Bryce Wayne Lee
Lars Eric Nils Rodert
David Christopher Chance

GROUP COMPANY SECRETARY

Philana WY Poon

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Fax: +852 2877 8877

ANNUAL REPORT 2014

This Annual Report 2014 in both English and Chinese is now available in printed form from the Company and the Company's Share Registrar, and in accessible format on the websites of the Company (www.pccw.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Shareholders who:

A) received the Annual Report 2014 using electronic means through the website of the Company may request a printed copy, or
B) received the Annual Report 2014 in either English or Chinese may request a printed copy of the other language version

by writing or sending email to the Company c/o the Company's Share Registrar at:

Computershare Hong Kong Investor Services Limited
Investor Communications Centre
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Telephone: +852 2862 8688
Fax: +852 2529 6087
Email: pccw@computershare.com.hk

Shareholders who have chosen (or are deemed to have agreed) to receive the corporate communications of the Company (including but not limited to the Annual Report 2014) using electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2014 will promptly, upon request in writing or by email to the Company's Share Registrar, be sent the Annual Report 2014 in printed form, free of charge.

Shareholders may change their choice of language and/or means of receipt of the Company's future corporate communications at any time, free of charge, by reasonable prior notice in writing or by email to the Company's Share Registrar.

LISTINGS

The Company's shares are listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts ("ADRs") on the OTC Markets Group Inc. in the United States. Each ADR represents 10 ordinary shares of the Company. Certain United States Dollar guaranteed notes issued by subsidiaries of the Company are listed on the Singapore Exchange Securities Trading Limited and the GreTai Securities Market in Taiwan, China.

Owners of record as of the close of business on the ADR record date of American Depositary Shares can vote by proxy at the annual general meeting by completing a voting instruction card provided by the Depositary Bank. The Depositary Bank will tabulate and transmit the amount of ordinary share votes to the Company before the annual general meeting.

Additional information and specific inquiries concerning the Company's ADRs should be directed to the Company's ADR Depositary at the address given on this page.

Other inquiries regarding the Company should be addressed to Investor Relations at the address given on this page.

STOCK CODES

The Stock Exchange of Hong Kong Limited	0008
Reuters	0008.HK
Bloomberg	8 HK
ADRs	PCCWY

REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
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Telephone: +852 2862 8555
Fax: +852 2529 6087
Email: hkinfo@computershare.com.hk

ADR DEPOSITARY

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Telephone: +1 781 575 4555
Email: citibank@shareholders-online.com
Website: www.citi.com/dr

SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at December 31, 2014:	7,453,177,661 shares

DIVIDEND

Dividend per ordinary share for the year ended December 31, 2014:

Interim	6.99 HK cents
Final	13.21 HK cents

FINANCIAL CALENDAR

Announcement of 2014 Annual Results	February 11, 2015
Closure of register of members (for determination of shareholders who qualify for 2014 final dividend)	May 13 – 14, 2015 (both days inclusive)
Record date for 2014 final dividend	May 14, 2015
Payment of 2014 final dividend	On or around June 19, 2015
2015 Annual General Meeting	May 7, 2015

INVESTOR RELATIONS

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WEBSITE

www.pccw.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 PCCW 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:

- our ability to execute our business strategy to expand our businesses locally and overseas, including entering into business combinations, strategic investments and acquisitions and challenges in growing business organically;
- our ability to develop our growth businesses in media and IT services after the spin-off of the telecommunications business into HKT;
- possible negative effects of potentially new regulatory developments;
- increased competition in the Hong Kong media market and the IT services market;
- increased content costs, changes in customer viewing habits or changes in technology;
- increased competition in the Hong Kong telecommunications market;
- our ability to obtain additional capital;
- our ability to implement our business plan as a consequence of our substantial debt; and
- our exposure to interest rate risk.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of PCCW 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.

PCCW Limited (Incorporated in Hong Kong with limited liability)

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PCCW shares are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008)
and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the US (Ticker: PCCWY).

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