HKT

Annual Report 2015

Stock Code: 6823

a PCCW Group member

CONTENTS

CORPORATE PROFILE

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

HKT offers a unique quadruple-play experience in Hong Kong delivering media content on its fixed-line, broadband Internet access and mobile platforms jointly with its parent company, PCCW Limited.

HKT also provides a range of innovative and smart living services beyond connectivity to make the daily lives of customers more convenient, whether they are at home, in the workplace, or on the go.

Employing approximately 19,400 staff, HKT is headquartered in Hong Kong and maintains a presence in mainland China as well as other parts of the world.

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

SIGNIFICANT EVENTS IN 2015

FEBRUARY

HKT announces strong financial results for the year ended December 31, 2014.

APRIL

HKT demonstrates the world's first LTE-A 450Mbps solution.

MAY

The Club enables members to redeem Clubpoints for Asia Miles.

PCCW Global, China Telecom Global and Chunghwa Telecom International jointly create a unified IPX platform for Greater China to improve service quality.

NETVIGATOR introduces a new multi-discipline program, "Imagine Natives", to groom local creative young talents.

HKT receives a prestigious environmental excellence gold award granted by the Environmental Campaign Committee and ten other organizations.

JUNE

PCCW Global acquires Syntelligence in a bid to expand its Unified Communications-as-a-Service (UCaaS) business.

JULY

Introduces mobile payment service Tap & Go via an all-in-one SIM card for NFC (Near Field Communication) Android phone users.

AUGUST

HKT announces solid financial results for the six months ended June 30, 2015.

NETVIGATOR launches Hong Kong's first 10Gbps fiber service.

SEPTEMBER

HKT announces the development of a true 4K ultra high definition all-in-one appliance jointly with PCCW Media.

OCTOBER

Teams up with Microsoft to launch HKT x Office 365 business cloud service to help SMEs boost productivity and operational efficiency.

csl opens a three-storey, 6,000 sq. ft. flagship store in Causeway Bay.

NOVEMBER

HKT demonstrates the world's first 4.5G 1Gbps mobile network at the Global Mobile Broadband Forum 2015 in Hong Kong.

csl launches Hong Kong's first-in-market data rollover plan, allowing mobile customers to carry forward their unused data entitlement.

PCCW Global implements the next generation of software-defined network capabilities for providing customers with online self-service tools.

DECEMBER

The Club celebrates its first anniversary, offering members a wide array of delights and free tickets to The Wheel.

Completion of the consolidation of HKT and CSL radio cell sites for better customer experience and operational efficiency.

A physical card for Tap & Go is made available so more Hong Kong mobile users can enjoy the service.

HKT completes a critical migration process, paving the way for the full integration of HKT and CSL core mobile networks.

HKT and parent company PCCW receive an award for the highest service hours of volunteer services from the Social Welfare Department.

AWARDS

Award	Awardee	Scheme Organizer
10-year QTS Merchant Recognition	1010 and csl	Hong Kong Tourism Board
20 Most Promising Unified Communications Technology Solution Providers 2015	PCCW Global	*CIO Review*
AfricaCom Awards 2015 • Best Cost Efficiency Solution for Africa	PCCW Global	Informa Telecoms & Media
Asia Pacific Best Practices Awards 2015 • Greater China Contact Center Outsourcing Product Differentiation Excellence Award	PCCW Teleservices	Frost & Sullivan
Asia Pacific Contact Centre Association Leaders Recognition Awards	HKT	Asia Pacific Contact Centre Association Leaders
Award of 10,000 Hours for Volunteer Service	Volunteer team of HKT and PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
AV Awards 2014 • Home Broadband Service Provider of the Year • Mobile Broadband Service Provider of the Year • Mobile Service Provider of the Year	NETVIGATOR csl	*AV Magazine*
Best Loved Brands Awards 2014 • Home Broadband Service	NETVIGATOR	RoadShow
Best of IT Award 2014 • My Favorite Home Broadband Service Award • My Favorite Mobile Service Award	NETVIGATOR csl	*PC Market*
Best SME Cloud Solutions	HKT (HKT Cloud Solutions for SME – Retail and Food & Beverage)	Office of the Government Chief Information Officer
Best VoLTE Innovation Award	HKT	Informa

PCCW Teleservices receives the Greater China Contact Center Outsourcing Product Differentiation Excellence Award at the Asia Pacific Best Practices Awards 2015.

HKT wins the Best VoLTE Innovation award at Informa's LTE World Summit 2015.

Award	Awardee	Scheme Organizer
CAHK STAR 2015 • Best Mobile Network Operator • Best Mobile Network Service Provider	 csl 1O1O	Communications Association of Hong Kong
CAPITAL WEEKLY Service Awards 2015 • Mobile Broadband Service Operator	 1O1O	*CAPITAL WEEKLY*
CarbonCare® Action Label 2015	HKT	Carbon Care Asia
Caring Company	HKT	The Hong Kong Council of Social Service
Certificate of Genuine Service	1O1O and csl shop staff members	Praisage!
Certificate of Recognition for Outstanding Volunteer Group	HKT	Eastern/Wan Chai District Co-ordinating Committee on Promotion of Volunteer Service, Social Welfare Department
Computerworld Hong Kong Awards 2015 • Corporate Mobile Services Provider • Mobile Device Management • Infrastructure-as-a-Service Provider • Local Data and Telecoms Services Provider	 1O1O HKT	*Computerworld Hong Kong*
Customer Service Excellence Award 2014 • Individual Award – Field & Special Service – Gold • Individual Award – Contact Centre Service – Bronze • Team Award – Field & Special Service – Silver Award	 HKT Call Center Sales staff member HKT Call Center Services staff member Integrated Project Management, HKT	Hong Kong Association for Customer Service Excellence
e-brand awards 2015 • The Best of Business Wi-Fi Solutions • The Best of SME Cloud Solutions • The Best of Telecommunication Network Service Provider • The Best of Mobile Network Service • The Best of Residential Broadband Service • The Best of Smart Living Brand	 HKT csl NETVIGATOR Smart Living	*e-zone*

Award	Awardee	Scheme Organizer
Excellent Smiling Staff Award	1010 shop staff member	Mystery Shopper Service Association
2015 Readers' Choice & Innovation Awards • Fixed Broadband Project of the Year	HKT	Telecom Asia
Global Carrier Awards 2015 • Best North American Project • Best Voice Service Innovation – Emerging Marketing	PCCW Global	*Capacity magazine*
2014 Gold Award for Volunteer Service (Organization)	Volunteer team of HKT and PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
GTB Innovation Awards 2015 • Business Service Innovation	PCCW Global (MOREAL Threat Management Service)	*Global Telecom Business*
Hong Kong Awards for Environmental Excellence 2014 • Media and Communication – Gold Award	HKT	Environmental Campaign Committee and Environmental Protection Department
2015 Hong Kong Awards for Industries • Customer Service Award	CSL Mobile	Hong Kong Retail Management Association

HKT has been granted the Gold Award in the media and communication sector of the Hong Kong Awards for Environmental Excellence 2014.

CSL Mobile wins the Customer Service Award at the 2015 Hong Kong Awards for Industries.

Award	Awardee	Scheme Organizer
Hong Kong Call Centre Association Awards 2015		Hong Kong Call Centre Association
• Grand Award of the Year • Best Individual Category Achievement • Best Contact Centre in Corporate Social Responsibility – Silver • Best Contact Centre in Technology Application – Silver • Best Contact Centre in Training and People Development – Gold	HKT Consumer Group	
• Best Contact Centre in Quality Assurance – Bronze • Inbound Contact Centre of the Year (20–50 Seats) – Silver • Inbound Contact Centre of the Year (Over 50 Seats) – Bronze	HKT Engineering	
• Inbound Contact Centre of the Year (Below 20 Seats) – Silver	HKT Consumer Group Customer Care Office	
• Inbound Contact Centre of the Year (20–50 Seats) – Gold	HKT Consumer Group Fixed Line Retention Dedicated Hotline	
• Inbound Contact Centre of the Year (20–50 Seats) – Bronze • Mystery Caller Assessment Award (Phone-in) – Telecommunications – Gold	1010 Contact Center	
• Inbound Contact Centre of the Year (Over 50 Seats) – Bronze	HKT Consumer Group Relocation Hotline	
• Mystery Caller Assessment Award (On-site) – Telecommunications – Best-in-class • Mystery Caller Assessment Award (On-site) – Telecommunications – Gold	HKT Consumer Group NETVIGATOR Broadband Upgrade Hotline	
• Mystery Caller Assessment Award (On-site) – Telecommunications – Gold	HKT Consumer Group NETVIGATOR Customer Service	
• Mystery Caller Assessment Award (On-site) – Telecommunications – Gold	HKT Consumer Group now TV Technical Support	
• Mystery Caller Assessment Award (On-site) – Telecommunications – Gold	HKT Engineering Diamond Commercial Contact Center	
• Mystery Caller Assessment Award (On-site) – Telecommunications – Gold	HKT Engineering Enterprise Contact Center	
• Mystery Caller Assessment Award (Phone-in) – Telecommunications – Gold • Outbound Contact Centre of the Year (Over 50 Seats) – Bronze	HKT Consumer Group now TV Call Center Sales	
• Mystery Caller Assessment Award (Phone-in) – Telecommunications – Gold	HKT Consumer Group Smart Living Dedicated Hotline	
• Off-shore Contact Centre of the Year – Bronze	HKT Consumer Group Broadband Sales Hotline	
• Contact Centre Quality Assurance Professional of the Year – Silver • Inbound Contact Centre Representatives of the Year – Bronze	HKT Business Customer Hotline staff members	

Award	Awardee	Scheme Organizer
• Contact Centre Quality Assurance Professional of the Year – Merit	HKT Consumer Group staff members	
• Contact Centre Recruitment Professional of the Year – Gold		
• Contact Centre Trainer of the Year – Gold		
• Inbound Contact Centre Manager of the Year – Bronze		
• Inbound Contact Centre Manager of the Year – Bronze		
• Inbound Contact Centre Team Leader of the Year – Silver		
• Inbound Contact Centre Representative of the Year – Gold		
• Outbound Contact Centre Manager of the Year – Gold		
• Outbound Contact Centre Manager of the Year – Bronze		
• Outbound Contact Centre Team Leader of the Year – Silver		
• Outbound Contact Centre Representatives of the Year – Gold		
• Outbound Contact Centre Representatives of the Year – Bronze		
• Contact Centre Recruitment Professional of the Year – Bronze	HKT Call Center Sales staff member	
• Inbound Contact Centre Manager of the Year – Silver	CSL Mobile staff members	
• Inbound Contact Centre Representatives of the Year – Silver		
• Inbound Contact Centre Representatives of the Year – Bronze		

HKT has swept a total of 44 awards, including 23 corporate and 21 individual awards, at the Hong Kong Call Centre Association Awards 2015.

Award	Awardee	Scheme Organizer
• Inbound Contact Centre Manager of the Year – Bronze • Inbound Contact Centre Manager of the Year – Merit • Inbound Contact Centre Team Leader of the Year – Merit	PCCW Teleservices staff member HKT Engineering staff members	
Hong Kong Computer & IT Brand Awards 2015 • Excellent Brand of Fiber Broadband and Cloud Services	NETVIGATOR	Metro Info and The Chamber of H.K. Computer Industry
Hong Kong Green Organisation	HKT	Environmental Campaign Committee and Environmental Protection Department
HK Golden IT Award 2015 • Best Broadband Service Provider	NETVIGATOR	HK Golden
Hong Kong Service Awards 2015 • Long Distance Call • Internet Service Provider • Mobile Service Provider	IDD 0060 NETVIGATOR csl	*East Week*
iChoice Award 2015 • LTE Service Provider • Mobile Network Service Provider	csl	discuss.com
Infocom World Conference 2015 • 2015 Business Growth	PCCW Global	Smart Press S.A.
MEF Excellence Awards 2015 • Wholesale Service Provider – Global	PCCW Global	Metro Ethernet Forum
Merit of Highest Service Hour Award 2014 (Private Organisations – Category 1)	Volunteer team of HKT and PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department

HKT and parent company PCCW have received an award for the highest service hours of volunteer services from the Social Welfare Department for the 14th straight year.

Award	Awardee	Scheme Organizer
Metro Creative Awards 2015 • The Best Creative Ad	 HKT and csl	*Metro Daily*
Metro Awards for Eco-Business 2015	 Smart Living	*Metro Daily and Metro Prosperity*
Outstanding Corporate Strategy Awards 2015	 NETVIGATOR, Smart Living & csl	*East Week*
Outstanding QTS Merchant Award 2015 • AV, Computer & Telecom Products – Silver • AV, Computer & Telecom Products – Bronze • Merit QTS Merchant Award (Retail Category)	 1010 csl HKT	Hong Kong Tourism Board
Outstanding QTS Merchant Service Staff Award 2015 • Supervisory – AV, Computer & Telecom Products – Gold • Front-line staff – AV, Computer & Telecom Products – Gold • Front-line staff – AV, Computer & Telecom Products – Silver • Front-line staff – AV, Computer & Telecom Products – Bronze	 HKT shop staff members 1010 shop staff member	Hong Kong Tourism Board
Power Smart Energy Saving Contest 2014 • Biggest Unit Saver Award (Organization) – Champion	 HKT	Friends of the Earth (HK)
Registrar of The Year 2014	 HKT	Hong Kong Internet Registration Corporation Limited
Service & Courtesy Award 2015 • Telecommunications Category – Supervisory Level – Individual Award • Telecommunications Category – Junior Frontline Level – Outstanding Performance Award • Telecommunications Category – Junior Frontline Level – Outstanding Performance Award • Telecommunications Category – Junior Frontline Level – Individual Award	 HKT shop staff members csl shop staff member	Hong Kong Retail Management Association

Award	Awardee	Scheme Organizer
Service Retailers of the Year – 2015 • Category Awards (Telecommunications)	 1010	Hong Kong Retail Management Association
Service Star 2015 • Cordial Attitude Award • Merit Award	 1010 shop staff member HKT and 1010 shop staff members	*Job Finder*
Sing Tao Service Awards 2014 • Telecom Service Provider	 csl	*Sing Tao Daily*
Smiling Enterprise Award	csl	Mystery Shopper Service Association
Smiling Staff Award	HKT and csl shop staff members	Mystery Shopper Service Association
SMBWorld Awards 2015 • Best Business Internet Broadband • Best SMB Cloud Storage • Best SMB Partner (Technology)	 Business NETVIGATOR HKT Cloud Office HKT	*SMBWorld*
2015 Sub-Saharan African Connectivity Solutions Customer Value Leadership Award	PCCW Global	Frost & Sullivan
Telecom Asia Awards 2015 • Best Broadband Carrier Award	 HKT	Telecom Asia
Telecom Review Excellence Award 2015 • The Best African Wholesale Operator • The Best Asian Wholesale Operator	 PCCW Global	Telecom Review
Telecoms World Middle East Awards • Best International Wholesale Carrier	 PCCW Global	Terrappin
The 15th CAPITAL Outstanding Enterprise Awards • Outstanding Fixed Telecommunications Network Service Provider	 HKT	*CAPITAL*

Award	Awardee	Scheme Organizer
The 47th Distinguished Salesperson Award Programme • Distinguished Salesperson Award • Distinguished Salesperson Award Category – Certificate of Excellence • Outstanding Young Salesperson Award	 HKT, 1010 and csl shop staff members HKT shop staff member csl shop staff member	Hong Kong Management Association
The Best SME Partners 2015 • ICT Service Provider • Internet Service Provider	 HKT	*Economic Digest*
TOMO Brand Awards • Financial and Communications – Telecommunications	 csl	*AtNext*
TOUCH Brands 2015	 csl NETVIGATOR	*East TOUCH*
The BATS 2014 • Pioneer Award	 csl	TVB Online
TVB Weekly The Most Popular Brand Award 2015	 csl	*TVB Weekly*
World Communications Awards 2015 • Best Broadband Access Service • Innovation Award: Operator	 HKT PCCW Global	Total Telecom
Yahoo Big Idea Chair Awards 2015 • Best Branding Campaign – Merit	 csl	Yahoo Hong Kong
Yahoo emotive brand awards 2014-2015 • Telecommunications Category	 NETVIGATOR & csl	Yahoo Hong Kong

STATEMENT FROM THE CHAIRMAN

I am pleased to report a set of fruitful financial results for HKT for the year ended December 31, 2015.

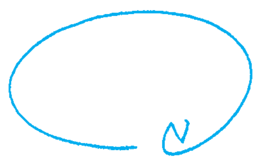
The fixed broadband business performed robustly in a highly competitive market with an encouraging increase in the number of fiber broadband customers, which is instrumental to the growth of the segment. It has also been expanding its service footprint to meet customer demand and capture a greater share of the overall broadband market.

In cooperation with PCCW Media, HKT will be introducing a new appliance for households to watch in 4K ultra high definition (UHD) now TV, digital terrestrial TV, OTT (Over-the-top) content and enjoy other applications. This in turn will drive customer demand for more bandwidth.

HKT continues to lead the mobile communications market in both service excellence and technology evolution. In the second half of last year, we launched a secure, convenient mobile payment service, Tap & Go. We have also completed the consolidation of radio cell sites of HKT and those acquired from CSL, thereby achieving significant cost savings in 2015 as anticipated, with full-year synergistic benefits in 2016. Customer experience has also been improved as a result.

PCCW Global, the international operating division, reported sustained growth as it expanded its connectivity coverage and service capabilities.

Last year, HKT was able to accomplish a steady performance across its business lines amid a sluggish retail sentiment and slow local economic growth. In view of what will likely remain intense market competition and challenging economic conditions ahead, we will be prudent when conducting our business and in identifying growth opportunities in 2016.



Richard Li
Chairman
February 25, 2016

STATEMENT FROM THE GROUP MANAGING DIRECTOR

It is my pleasure to report that HKT's various lines of business continued to operate steadily last year.

SUPERIOR BROADBAND CONNECTIVITY

The broadband business recorded a solid performance despite intense competition and considerable price pressure in the market. HKT continued to record an expansion of customer base, with a steady double-digit growth in the number of customers using our genuine fiber-to-the-home (FTTH) service.

HKT's overall fiber coverage is nearly 88% with a 82% FTTH coverage of Hong Kong households. HKT aims to further broaden its high-speed broadband service to more rural areas to fulfill the needs of the residents. During the third quarter, NETVIGATOR commercially launched its 10Gbps fiber service – the first in Hong Kong – following a pilot period in the first half.

Riding on its leading-edge connectivity capability, HKT has collaborated with PCCW Media, operator of now TV and the Viu OTT (Over-the-top) services, in the rollout of a true 4K all-in-one appliance. The integrated appliance, "Now One", which is powered by Samsung, has features including true 4K ultra high definition (UHD) viewing, IPTV, OTT, DTT (digital terrestrial TV), DVR (digital video recording) and NFC (Near Field Communication). Customer subscription for the appliance is expected to commence within the first quarter of 2016.

HKT offers diversified Smart Living solutions ranging from home entertainment and appliance control and surveillance, to property lobby access and car gate control. In 2015, Smart Living services performed well as interest among individual homeowners and property developers grew. HKT will continue to fortify relationship with developers and make available more sophisticated applications.

MOBILE NETWORK INTEGRATION RELEASES SYNERGIES

Following the acquisition of CSL Holdings Limited (previously CSL New World Mobility Limited), HKT commenced progressive consolidation of the HKT and CSL radio cell sites in the second half of 2014 in order to provide customers with a better user experience and to achieve operational efficiencies and cost savings. The project was completed in the last quarter of 2015 as planned. Customers can enjoy enhanced coverage of both 3G and 4G communications under the combined footprint, while more than 1,500 redundant cell sites have been closed down resulting in significant rental savings last year.

In December, we carried out a critical migration process towards the full integration of our core mobile networks. The process was completed over a 48-hour period by a team of nearly 500 engineers and IT specialists from HKT and vendor Huawei.

Full integration of the core network is expected to be completed later this year enabling HKT to offer even more advanced services and roaming coverage, and one of the world's best mobile broadband networks.

In addition to being the largest mobile service provider in Hong Kong, HKT has been the leader of technology evolution in the market for many years. As reported in the Interim Report 2015, HKT demonstrated the world's first LTE-A network by aggregating three inter-site 20MHz carriers to achieve 4G network speeds with a peak throughout of 450Mbps last April. This service will be commercially launched when compatible smartphones are available in the market. Last November, HKT, together with Huawei, further demonstrated the world's first 4.5G 1Gbps mobile network at the Global Mobile Broadband Forum 2015, which was held in Hong Kong.

INNOVATIVE MOBILE SERVICES

In July 2015, HKT introduced a mobile payment service Tap & Go for Android phone users based on an all-in-one SIM card. In December, we extended the service to iPhone and other non-NFC Android phone owners who can use Tap & Go by way of a physical card.

Hong Kong mobile users of different makes of phones and service providers can now use Tap & Go to make payments at more than three million MasterCard® *PayPass*™ merchant locations worldwide. Users can also conduct online purchases and peer-to-peer money transfers, and may set PIN protection, and on/off for payment by card or online for maximum security.

Tap & Go is operated by HKT Payment Limited, a wholly-owned subsidiary of HKT. Since the introduction of the service, the Payment Systems and Stored Value Facilities Ordinance has come into effect under which issuers of stored value facilities (SVF) are subject to licensing by the Hong Kong Monetary Authority. HKT is in constructive dialogue with HKMA regarding application for a SVF license.

Another breakthrough by HKT as Hong Kong's leading mobile operator was a mobile data rollover service. Customers taking up this Piggy Bank Data Carry Forward Service for a small fee may save up mobile data entitlements for use when the need arises within their contract period.

COMMERCIAL SOLUTIONS TO MEET EXPANDING DEMAND

HKT is the trusted telecommunications partner of many multinationals operating in Hong Kong, large corporations, as well as small and medium sized enterprises (SMEs). HKT's business Wi-Fi service has gained further popularity in the commercial segment. In 2015, there was also a notable increase in the take-up of cloud and other ICT (information and communications technology) solutions provided by HKT especially among the SMEs.

In October, HKT launched a business cloud service jointly with Microsoft, allowing SMEs to raise their productivity and enhance operational efficiency at affordable prices. HKT x Office 365 is a full-featured cloud solution consisting of HKT's robust network and ample storage capacity, as well as Microsoft's cloud-based solution with the latest Office 2016 apps. As Microsoft's first Telco Cloud Solution Provider partner in Hong Kong, HKT offers one-stop support and management services.

ADDITIONAL INTERNATIONAL CONNECTIVITY CAPACITY AND DIVERSITY

During the year, PCCW Global signed a number of interconnection and cooperation agreements with its counterparts in other parts of the world to enhance its international connectivity coverage and service capabilities. Its network currently covers more than 3,000 cities in 140 countries, supporting a portfolio of integrated global communications solutions.
PCCW Global is implementing the next generation of software-defined network capabilities, enabling customers to have a web and API (application program interface) based self-service window for addressing their data transport, process and storage needs through a much more automated process.

Earlier in the year, PCCW Global acquired Syntelligence, which holds a UK hosted Unified Communications-as-a-Service (UCaaS) provider and a software development business that has developed advanced service orchestration platform for unified communications. The acquisition has enabled PCCW Global to accelerate the development of its global unified communications offering.

FOCUS ON CUSTOMERS

HKT launched a customer loyalty and rewards program, The Club, in December 2014. Throughout the year, it has hosted more than 30 indoor and outdoor events of music, movie, art, culture, fashion, sports, travel, dining and leisure for members and their family. The Club has also partnered with different merchants and event organizers to offer some 100 special promotional offers to members.

To date, more than 2.8 million eligible The Club memberships have been created. The Club will continue to offer more exclusive services, rewards and events in 2016 to the different tiers of members.

SUSTAINABLE GROWTH FOR THE FUTURE

HKT will continue to innovate on services and create new engines for growth on the strong base of its fixed line, broadband, and mobile services.

HKT's broadband strength will continue to be our advantage in tapping the market for new demand and upgrade to fiber services including our first-in-market 10Gbps service. The suite of offerings will be complemented this year with a new integrated 4K all-in-one appliance.

HKT will also benefit from the emergence of more advanced mobile devices with high resolution display as well as a greater variety of content offerings which drive demand for higher mobile speeds and data usage.

In the meantime, upon completion of the consolidation of the mobile cell sites last year, we expect to record in 2016 the full-year cost synergies of the site rationalization.

The Hong Kong economy grew slowly last year as characterized by a weaker retail and consumer market. Both the local and external macro-economic environments are expected to remain challenging in 2016, while local competition is expected to remain keen. With this backdrop, HKT will cautiously examine any opportunities to maintain its competitiveness and leadership in the market while identifying ways of generating sustainable growth for the future.

Alex Arena
Group Managing Director
February 25, 2016

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard
Executive Chairman

Mr Li, aged 49, was appointed the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Executive Committee and a member of the Nomination Committee of the HKT Board. Mr Li has also been an Executive Director and the Chairman of PCCW Limited (PCCW) since August 1999, the Chairman of PCCW's Executive Committee and a member of the Nomination Committee of the board of directors of PCCW. He is also the Chairman and Chief Executive of the Pacific Century Group, an Executive Director and the Chairman of Pacific Century Premium Developments Limited (PCPD), 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 an Independent 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.

Alexander Anthony ARENA
Group Managing Director

Mr Arena, aged 64, has been the Group Managing Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. He is also a member of HKT's Executive Committee and holds directorships in various Group companies. Mr Arena is primarily responsible for the overall corporate management, planning, operation and development of the Group. Mr Arena is also a Non-Executive Director of Pacific Century Regional Developments Limited. Prior to the spin-off and separate listing of HKT, Mr Arena was an Executive Director of PCCW Limited (PCCW) from August 1999 to November 2011 and the Group Managing Director of PCCW from April 2007 to November 2011. He was also the Group Chief Financial Officer of PCCW from June 2002 to April 2007. Mr Arena was also the Deputy Chairman of PCCW's Executive Committee, a member of PCCW's Regulatory Compliance Committee, an Executive Director and Deputy Chairman of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee prior to November 2011.

Prior to joining the Pacific Century Group in 1998, Mr Arena was a Special Policy Adviser to the Hong Kong Government from 1997 to 1998. From 1993 to 1997, he was the Director-General of Telecommunications at the Office of the Telecommunications Authority (OFTA) of Hong Kong, as well as a member of the Broadcasting Authority of Hong Kong. Before taking up his post at OFTA, Mr Arena was appointed by the Hong Kong Government to plan a reform program for the liberalization of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he served as an inaugural member of the Australian Telecommunications Authority for four years. Mr Arena has led an extensive career in public administration, specializing in high technology and infrastructure industries. From a practicing radio/communications engineer to a public policy maker, his experience spans such diverse areas as commercialization of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

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

HUI Hon Hing, Susanna

Group Chief Financial Officer

Ms Hui, aged 51, has been the Group Chief Financial Officer of HKT Limited (HKT) and an Executive Director of HKT and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. She is also a member of HKT's Executive Committee and holds directorships in various Group companies. Ms Hui is primarily responsible for overseeing the financial matters of the Group. Ms Hui is and has been the Group Chief Financial Officer of PCCW Limited (PCCW) since April 2007 and an Executive Director of PCCW since May 2010. She is also a member of PCCW's Executive Committee. Prior to her appointment as the Group Chief Financial Officer of PCCW, she was the Director of Group Finance of the PCCW Group from September 2006 to April 2007, and the Director of Finance of the PCCW Group with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was also the Chief Financial Officer of Pacific Century Premium Developments Limited from July 2009 to November 2011.

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

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

NON-EXECUTIVE DIRECTORS

Peter Anthony ALLEN

Non-Executive Director

Mr Allen, aged 60, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is a member of the HKT's Audit Committee and the Trustee-Manager's Audit Committee. He is an Executive Director and the Group Managing Director of Pacific Century Regional Developments Limited, an Executive Director and the Chief Financial Officer of the Pacific Century Group and Senior Advisor to PCCW Limited (PCCW). Mr Allen was an Executive Director of PCCW from August 1999 to November 2011.

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

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

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

CHUNG Cho Yee, Mico

Non-Executive Director

Mr Chung, aged 55, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. Mr Chung was a Non-Executive Director of PCCW Limited (PCCW) from May 2010 to November 2011. He was an Executive Director of PCCW from November 1996 who was responsible for merger and acquisition activities and was re-designated to a Non-Executive Director of PCCW in May 2010. He joined the Pacific Century Group in March 1999.

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

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

LU Yimin

Non-Executive Director

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

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

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

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

LI Fushen

Non-Executive Director

Mr Li, aged 53, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is a member of HKT's Regulatory Compliance Committee. Mr Li became a Non-Executive Director of PCCW Limited (PCCW) in July 2007. He is a member of the Nomination Committee of the board of directors of PCCW.

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.

Srinivas Bangalore GANGAIAH (aka BG Srinivas)

Non-Executive Director

Mr Srinivas, aged 55, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in August 2014. He was appointed an Executive Director and Group Managing Director of PCCW Limited (PCCW) effective from July 2014. He is also a member of PCCW's Executive Committee.

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.

For identification only

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor CHANG Hsin Kang,
FREng, GBS, JP

Independent Non-Executive Director

Professor Chang, aged 75, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Regulatory Compliance Committee, a member of HKT's Audit Committee, Remuneration Committee and Nomination Committee, and a member of the Trustee-Manager's Audit Committee. Professor Chang was an Independent Non-Executive Director of PCCW Limited from October 2000 to November 2011.

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

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

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

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

Sunil VARMA

Independent Non-Executive Director

Mr Varma, aged 72, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is also the Chairman of both HKT's Audit Committee and the Trustee-Manager's Audit Committee and a member of HKT's Nomination Committee, Remuneration Committee and Regulatory Compliance Committee.

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

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

Mr Varma is also a Director and the Chairman of Audit Committee of various companies in India including International Asset Reconstruction Company Pvt. Ltd. and Dr. Lal PathLabs Limited. Mr Varma was a Director and a member of the Audit Committee of Shriram EPC Ltd., a Director and the Chairman of the Audit Committee of Vistaar Livelihood Finance Pvt. Ltd. and a Director and the Chairman of Audit and Risk Management Committee of Shriram City Union Finance Ltd. in India.

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

Aman MEHTA

Independent Non-Executive Director

Mr Mehta, aged 69, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in May 2014. He is the Chairman of HKT's Nomination Committee. Mr Mehta has been an Independent Non-Executive Director of PCCW Limited (PCCW) since February 2004. He is also the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the board of directors of PCCW.

Mr Mehta joined the board of directors of PCCW 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 54, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in May 2015. She is the Chairwoman of HKT's Remuneration Committee. Ms Wong has been an Independent Non-Executive Director of PCCW Limited (PCCW) since March 2012 and is the Chairwoman of the Regulatory Compliance Committee and a member of the Nomination Committee and the Remuneration Committee of the board of directors of PCCW. 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.

COMBINED CORPORATE GOVERNANCE REPORT

The board of directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) (the "Trustee-Manager Board") and the board of directors of HKT Limited (the "Company") (the "Company Board") (together, the "Boards") present the corporate governance report of the HKT Trust and the Company on a combined basis for the year ended December 31, 2015.

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

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

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

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

CORPORATE STRATEGY

The Company, in conjunction with its listed parent PCCW Limited ("PCCW"), offers a unique quadruple-play experience in Hong Kong delivering media content on its fixed-line, broadband Internet access and mobile platforms. The Company's strategy for generating and preserving unitholder 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 the Company provides to its customers. The Company generates and preserves value by investing in these businesses and pursuing growth opportunities. Its strategy is to continue to be the market leader via innovation and broadening its service offerings in the telecommunications and ancillary businesses.

CORPORATE GOVERNANCE CODE

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

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

The HKT Trust and the Company have adopted the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as the corporate governance code of the HKT Trust and the Company. The HKT Trust and the Company have applied the principles and complied with all relevant code provisions of the CG Code during the year ended December 31, 2015, save and except for the code provisions set out below. The requirement to establish a separate Remuneration Committee with written terms of reference for the Trustee-Manager under the code provision B.1.2 of the CG Code is not relevant to the Trustee-Manager as its directors are not entitled to any remuneration under the Trust Deed, and therefore has not been complied with. In addition, given the unique circumstances of the HKT Trust i.e., the fact that the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals, the establishment of a separate Nomination Committee for the Trustee-Manager as required by code provision A.5.1 of the CG Code is not relevant to the Trustee-Manager, and therefore has not been complied with. The appointments of company secretaries during the year were discussed and approved at the physical executive committee meetings in accordance with the delegated board authority, of which the directors were briefed on the outcome, and therefore the requirement by code provision F.1.2 of the CG Code to approve these matters by physical board meetings has not been complied with. It is considered that the approval process is efficient and appropriate in the view of directors.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The HKT Trust and the Company have adopted their own code of conduct regarding securities transactions, namely the HKT Trust and HKT Limited Code of Conduct for Securities Transactions (the "HKT 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 Trustee-Manager and the Company, confirmations have been received of compliance with the required standard set out in the Model Code and the HKT Code during the accounting period covered by this annual report. Based on a director's disclosure of interest form filed by Chung Cho Yee, Mico, a non-executive director of the Trustee-Manager and the Company, under Part XV of the Securities and Futures Ordinance (the "SFO") on July 20, 2015, Chung Cho Yee, Mico disposed of all of his interest in Pacific Century Premium Developments Limited ("PCPD") comprising of 5,000,000 PCPD shares on November 13, 2014. Relevant provisions within the HKT Code were not fulfilled. PCPD is an indirect subsidiary of PCCW and accordingly PCPD is an associated corporation of the Company. The Trustee-Manager and the Company have from time to time reminded all directors of their obligations under Part XV of the SFO and the HKT Code. The Trustee-Manager and the Company will continue to implement the relevant procedures.

The interests and short positions of the directors and the chief executives of the Company and the Trustee-Manager in the share stapled units (the "Share Stapled Units") and underlying Share Stapled Units jointly issued by the HKT Trust and the Company; and the shares, underlying shares and debentures of the Company and its associated corporations have been disclosed in the Combined Report of the Directors on pages 46 to 68 of this annual report.

BOARDS OF DIRECTORS

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

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

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

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

- those functions and matters as set out in the terms of reference of various committees (where applicable) (as amended from time to time) for which Trustee-Manager Board approval must be sought from time to time;

BOARDS OF DIRECTORS *(CONTINUED)*

- consideration and approval of the financial statements of the HKT Trust and the Trustee-Manager in the interim and annual reports of the Company and the HKT Trust, and announcements of interim and annual results;

- consideration of distributions to registered holders of Share Stapled Units; and

- monitoring of the corporate governance practices and procedures; and maintenance of appropriate and effective risk management and internal control systems of the HKT Trust to ensure compliance with applicable rules and regulations.

The Executive Chairman of the Company is Li Tzar Kai, Richard and the Group Managing Director of the Company is Alexander Anthony Arena. The role of the Executive Chairman is separate from that of the Group Managing Director. The Executive Chairman is responsible for ensuring the Company Board functions effectively, for providing leadership for the Company Board in setting objectives and strategies, and for ensuring good corporate governance practices are enforced. The Group Managing Director is responsible for leading the day-to-day management and operations of the Company and for implementing HKT Limited Group's strategies. Details of the composition of the Boards are set out in the Combined Report of the Directors on pages 46 to 68 of this annual report.

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

The directors of the Company and the Trustee-Manager acknowledge their responsibility for preparing the financial statements of, respectively, the Company and the HKT Trust and the Trustee-Manager for each financial year, which give a true and fair view of the financial position of the HKT Limited Group and the HKT Trust and the Trustee-Manager (as the case may be), and of the financial performance and cash flows of the HKT Limited Group and the HKT Trust and the Trustee-Manager (as the case may be), for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2015, the directors of the Company and the Trustee-Manager have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; stated the reasons for any significant departure from applicable accounting standards in Hong Kong; and have prepared the financial statements on a going-concern basis. The statements of the external auditor relating to its reporting responsibilities on the financial statements of the HKT Limited Group and the HKT Trust, and the Trustee-Manager are respectively set out in the Independent Auditor's Reports on pages 69 and 169 of this annual report.

As at the date of this report, each of the Boards is comprised of 12 directors including three executive directors, five non-executive directors and four independent non-executive directors. At least one-third of the Boards are independent non-executive directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. Biographies of all the directors of the Company and the Trustee-Manager are set out on pages 16 to 20 of this annual report. The relationships (including financial, business, family or other material or relevant relationships), if any, among members of the Boards have also been disclosed in the Combined Report of the Directors of this annual report.

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

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

The Boards each held four meetings in 2015. The combined annual general meeting of unitholders of the HKT Trust and shareholders of the Company (the "Combined Annual General Meeting") was held on May 7, 2015 with the attendance of the external auditor to answer questions.

BOARDS OF DIRECTORS *(CONTINUED)*

The attendance of individual directors at the Company Board and the Company Board committee meetings, the Trustee-Manager Board and the Trustee-Manager Board committee meetings, and the Combined Annual General Meeting held in 2015 is set out in the following table:

	Meetings attended/eligible to attend in 2015 *(Note 1)*						
	Company				Trustee-Manager		Combined Annual General Meeting
Directors	Board	Audit Committee *(Note 2)*	Nomination Committee *(Note 2)*	Remuneration Committee *(Note 2)*	Board	Audit Committee *(Note 3)*	
Executive Directors							
Li Tzar Kai, Richard *(Executive Chairman)*	4/4	N/A	1/1	N/A	4/4	N/A	1/1
Alexander Anthony Arena *(Group Managing Director)*	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Non-Executive Directors							
Peter Anthony Allen *(Note 4)*	4/4	2/2	N/A	N/A	4/4	2/2	1/1
Chung Cho Yee, Mico	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Lu Yimin	2/4 *(Note 5)*	N/A	1/1	1/2	2/4 *(Note 5)*	N/A	1/1
Li Fushen	3/4	N/A	N/A	N/A	3/4	N/A	1/1
BG Srinivas	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Independent Non-Executive Directors							
Professor Chang Hsin Kang	4/4	3/3	1/1	2/2	4/4	3/3	1/1
Sunil Varma *(Chairman of the Audit Committee of the Company and the Trustee-Manager)*	4/4	3/3	1/1	2/2	4/4	3/3	1/1
Aman Mehta *(Chairman of the Company's Nomination Committee)*	4/4	N/A	1/1	N/A	4/4	N/A	1/1
Frances Waikwun Wong *(Note 6)* *(Chairperson of the Company's Remuneration Committee)*	2/2	N/A	N/A	N/A	2/2	N/A	N/A
The Hon Raymond George Hardenbergh Seitz *(Note 7)* *(Ex-Chairman of the Company's Remuneration Committee)*	2/2	0/1	N/A	2/2	2/2	0/1	0/1

Notes:

1. Directors may attend meetings in person or by means of telephone or other audio communications equipment in accordance with the Company's Amended and Restated Articles of Association (the "Company Articles") and the Trustee-Manager's Articles of Association (the "Trustee-Manager Articles").
2. For the composition of and the number of meetings held in 2015 by the Audit Committee, Nomination Committee and Remuneration Committee of the Company, please refer to the section headed "**Committees of the Company Board**" in this Combined Corporate Governance Report.
3. For the composition of and the number of meetings held in 2015 by the Audit Committee of the Trustee-Manager, please refer to the section headed "**Committee of the Trustee-Manager Board**" in this Combined Corporate Governance Report.
4. Appointed as a member of the Company's Audit Committee and the Audit Committee of the Trustee-Manager with effect from the conclusion of the Combined Annual General Meeting held on May 7, 2015.
5. Attendance at one meeting was by an alternate director of Lu Yimin appointed in accordance with the Company Articles and the Trustee-Manager Articles (as the case may be) which was not counted as attendance by the director himself in accordance with the requirements of the CG Code.
6. Appointed as an independent non-executive director of the Company and the Trustee-Manager and as the Chairperson of the Remuneration Committee of the Company with effect from the conclusion of the Combined Annual General Meeting held on May 7, 2015.
7. Retired from the Boards with effect from the conclusion of the Combined Annual General Meeting held on May 7, 2015. Following his retirement, The Hon Raymond George Hardenbergh Seitz ceased to be the Chairman of the Company's Remuneration Committee, and a member of the Company's Audit Committee and the Audit Committee of the Trustee-Manager.

BOARDS OF DIRECTORS *(CONTINUED)*

The Company and the Trustee-Manager together have received from each of their independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and consider that all four independent non-executive directors as at the date of this report, namely, Professor Chang Hsin Kang, Sunil Varma, Aman Mehta and Frances Waikwun Wong 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 Combined Report of the Directors of this annual report.

According to the Company Articles and the Trust Deed, any director so appointed by the Company Board either to fill a casual vacancy or as an addition shall also be appointed as a director of the Trustee-Manager. Any director of the Company and the Trustee-Manager appointed to fill the casual vacancy shall hold office only until the next following general meeting of the Company or the next following general meeting of the HKT Trust (as the case may be) and shall be eligible for re-election at that meeting. In the case as an addition, the additional director of the Company and the Trustee-Manager shall hold office only until the next following annual general meeting of the Company or the next following annual general meeting of the HKT Trust (as the case may be) and shall be eligible for re-election at that meeting.

In addition, according to the Company Articles, at each annual general meeting of the Company no less than one-third of the directors for the time being shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Company Articles, each non-executive director has a term of three years. Under the Trust Deed, the directors of the Trustee-Manager must be the same individuals who serve as directors of the Company at the relevant time; no person shall serve as a director of the Trustee-Manager unless he also serves as a director of the Company at the same time; and the office of a director of the Trustee-Manager shall be vacated if the relevant person ceases to be a director of the Company. These provisions are also contained in the Trustee-Manager Articles. Accordingly, the retirement by rotation provisions are also applicable, indirectly, in relation to the Trustee-Manager Board. Therefore, no director of either the Company or the Trustee-Manager will remain in office for a term of more than three years. The directors who shall retire from office of both the Company and the Trustee-Manager at the forthcoming Combined Annual General Meeting are set out in the Combined Report of the Directors on pages 46 to 68 of this annual report.

The Boards have a structured process to evaluate their own performance and directors' contribution on an annual basis including a self-evaluation questionnaire which is completed by all directors. The objectives of the evaluation are to assess whether the Boards and the committees, as well as the directors have adequately and effectively performed their roles and fulfilled their responsibilities; and have devoted sufficient time commitment to the Company's affairs; and to recommend areas for improvement. The evaluation process has confirmed that the Boards and committees continue to operate effectively and that the performance of the directors and the time commitment in discharging their duties as directors of the Company and the Trustee-Manager for the year ended December 31, 2015 were generally satisfactory.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed director of the Company and the Trustee-Manager will meet with fellow directors and senior corporate executives to ensure he/she has an understanding of the Company's operations and business, and will receive a tailored induction handbook containing the Company's governance structure, key policies and an overview of director's responsibilities, as well as a briefing by qualified professional on the general and specific duties of director under legal and regulatory requirements.

As part of an ongoing process of director's training, the directors of the Company and the Trustee-Manager are updated of 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 and the Trustee-Manager, namely, Li Tzar Kai, Richard, Alexander Anthony Arena, Hui Hon Hing, Susanna, Peter Anthony Allen, Chung Cho Yee, Mico, Lu Yimin, Li Fushen, BG Srinivas, Professor Chang Hsin Kang, Sunil Varma, Aman Mehta, Frances Waikwun Wong and The Hon Raymond George Hardenbergh Seitz, received updates on the Company's business and relevant rules and regulations. All directors are encouraged to attend the training seminars presented by qualified professionals on legal and regulatory updates organized by the company secretary. The Company and the Trustee-Manager together have received confirmation from all directors of their respective training records for the year ended December 31, 2015.

COMMITTEES OF THE COMPANY BOARD

The Company 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, the Nomination Committee, the Regulatory Compliance Committee and the Remuneration Committee have been structured to include a majority of independent non-executive directors.

Executive Committee and Sub-committees

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

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

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

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

The *Finance and Management Committee* was established with effect from the date of listing of the Share Stapled Units on November 29, 2011 (the "Listing Date"). This committee is chaired by the Group Managing Director and meets on a regular basis to review management and strategic matters across the HKT Limited Group and to set overall financial objectives and policies.

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

The *Risk Management, Controls and Compliance Committee (formerly known as Controls and Compliance Committee)*, which reports to the Finance and Management Committee, was established with effect from the Listing Date. It comprises senior members of the Company's Group Finance, Group Legal Office and Corporate Secretariat, Group Communications, Group Internal Audit, and Risk Management and Compliance departments. The committee reviews procedures for the preparation of the Company's and the HKT Trust's annual and interim reports and the corporate policies of the HKT Limited Group from time to time to ensure compliance with the various rules and obligations imposed under the Listing Rules. In November 2015, the committee was renamed to Risk Management, Controls and Compliance Committee with an expanded work scope to assist directors in the review of the effectiveness of the risk management and internal control systems of the HKT Limited Group on an ongoing basis.

The *Corporate Social Responsibility Committee*, which reports to the Finance and Management Committee, was established with effect from the Listing Date. It comprises senior members of the Company's Group Communications, Group Human Resources, Group Legal Office and Corporate Secretariat, Group Finance, Risk Management and Compliance, Network Planning and Operations, and Group Purchasing and Supply departments, as well as management from individual business units. The committee ensures that the Company operates in a manner that enhances its positive contribution to society and the environment. The committee is also responsible for reviewing the Company's corporate social responsibility strategy, principles and policies; setting guidance, direction and overseeing practices and procedures; and monitoring progress on the Company's corporate social responsibility and related activities.

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

Remuneration Committee

The Company Board established the Remuneration Committee with effect from the Listing Date. The primary objective of the Remuneration Committee is to ensure that the Company is able to attract, retain and motivate high-caliber employees who will underpin the success of the Company and enhance the value of the Company for the benefit of the registered holders of Share Stapled Units.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Remuneration Committee *(continued)*

The Remuneration Committee is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of directors and senior management of the Company and other members of the HKT Limited Group and determining, with delegated responsibility, the remuneration packages of individual executive directors and senior management of the Company and to make recommendations to the Company Board on the remuneration of non-executive directors. In addition, the committee provides effective supervision and administration of the HKT Trust and the Company's Share Stapled Units option scheme(s), as well as other Share Stapled Units 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.hkt.com/ir and the website of Hong Kong Exchanges and Clearing Limited (the "HKEx") at www.hkexnews.hk. This committee comprises four members, including three independent non-executive directors and one non-executive director, 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:

Frances Waikwun Wong *(Chairperson)*
(appointed with effect from the conclusion of the Combined Annual General Meeting held on May 7, 2015)
Professor Chang Hsin Kang
Sunil Varma
Lu Yimin
The Hon Raymond George Hardenbergh Seitz *(Ex-Chairman)*
(retired with effect from the conclusion of the Combined Annual General Meeting held on May 7, 2015)

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

- 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 twice in 2015. The attendance of individual directors at the committee meetings is set out on page 24 of this annual report.

The work performed by the Remuneration Committee during 2015 included:

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

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

(iii) review and recommendation of the non-executive directors' fees for 2015 to the Company Board for approval;

(iv) review and approval of the 2015 performance bonus scheme for executive directors and senior management and key performance indicators; and

(v) review and approval of the remuneration packages of executive directors.

Emoluments of directors of the Company for 2015 have been reviewed by the Remuneration Committee at its meeting held on February 25, 2016.

Details of emoluments of each director and senior executives are set out in note 12 to the consolidated financial statements of the HKT Trust and the Company.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Nomination Committee

The Company Board established the Nomination Committee with effect from the Listing Date. The primary duties of the Nomination Committee are to make recommendations to the Company Board on the appointment and re-appointment of directors, structure, size and composition of the Company Board to ensure fair and transparent procedures for the appointment and re-appointment of directors to the Company Board, and to maintain a balance of skills, experience and diversity of perspectives on the Company 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 Company Board adopted a board diversity policy (the "Board Diversity Policy") with the primary objective of enhancing the effectiveness of the Boards and their 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 Company 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. When identifying and selecting suitably qualified candidates for recommendation to the Company Board, the Nomination Committee will give consideration to the Board Diversity Policy whereby selection of candidates will be based on merit against objective criteria and with due regard to the benefits of diversity on the Company Board. The Nomination Committee reviews and monitors the implementation of the Board Diversity Policy as appropriate.

The Board Diversity Policy was taken into account by the Nomination Committee and the Company Board in the appointment of Frances Waikwun Wong as an independent non-executive director in May 2015. The diversity of the Company Board has been further enhanced in terms of balance of skills and experience, gender and professional background. The Nomination Committee conducted an annual review of the Company Board's composition taking into account the Board Diversity Policy at its meeting held on February 25, 2016 and formed the view that the Company Board has maintained an appropriate mix and balance of skills, knowledge, experience, expertise and diversity of perspectives appropriate to the business requirements of the Company.

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)*
Professor Chang Hsin Kang
Li Tzar Kai, Richard
Lu Yimin
Sunil Varma

The Nomination Committee met once in 2015. The attendance of individual directors at the committee meeting is set out on page 24 of this annual report.

The work performed by the Nomination Committee during 2015 included:

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

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

(iii) consideration and recommendation to the Company Board for approval the list of retiring directors of the Company and the Trustee-Manager for re-election at the Combined Annual General Meeting on May 7, 2015;

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

(v) recommendation to the Company Board for approval the appointment of Frances Waikwun Wong as an independent non-executive director of the Company after consideration of a range of diversity perspectives.

Audit Committee

The Company Board established the Audit Committee with effect from the Listing Date. The Audit Committee is responsible for assisting the Company Board to ensure objectivity and credibility of financial reporting of the HKT Limited Group, and that the directors have exercised the care, diligence and skills prescribed by law when presenting the HKT Limited Group's results to the registered holders of Share Stapled Units. The Audit Committee is also responsible for assisting the Company Board to ensure an effective system of internal controls of the HKT Limited Group is in place and to ensure good corporate governance standards and practices are maintained. In November 2015, the Company Board approved revision of the terms of reference of the Audit Committee effective for accounting period beginning on January 1, 2016 to enhance its accountability in risk management and internal control functions. 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.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Audit Committee *(continued)*

The Audit Committee's responsibilities also include the appointment, compensation and supervision of the external auditors. To ensure the 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.

The HKT Limited Group's external auditor is PricewaterhouseCoopers. PricewaterhouseCoopers has written to the Audit Committee confirming that they are independent with respect to the Company and that there is no relationship between PricewaterhouseCoopers and the Company which may reasonably be thought to bear on their independence. In order to maintain the external auditor's independence, it would only be employed for non-audit work if the work does not compromise the external auditor's independence and has been approved by the Audit Committee.

During the year, the external auditor provided audit, audit related and permissible non-audit services to the HKT Limited Group. Audit services include services provided in connection with the audit of the HKT Limited Group's consolidated financial statements. Audit related services include services such as issuance of special audit or assurance reports for tax or other regulatory purposes, accounting advice related to material transactions and reviews of risk management and internal control systems and/or processes, where the external auditor is best placed to undertake in its capacity as auditor. Permissible non-audit services include services such as tax compliance and tax planning services, financial due diligence review and non-financial reporting information systems consultation, which require specific review and approval by the Audit Committee.

For the year ended December 31, 2015, the fees paid or payable in respect of audit, audit related and permissible non-audit services provided to the HKT Limited Group by the external auditor amounted to approximately HK$13 million, HK$2 million and HK$4 million, respectively.

At its meeting held on February 25, 2016, the Audit Committee recommended to the Company Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2016 at the forthcoming Combined Annual General Meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor.

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

The members of the Audit Committee during the year and up to the date of this annual report are:
Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
Peter Anthony Allen
(appointed with effect from the conclusion of the Combined Annual General Meeting held on May 7, 2015)
The Hon Raymond George Hardenbergh Seitz
(retired with effect from the conclusion of the Combined Annual General Meeting held on May 7, 2015)

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 2015, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 24 of this annual report.

The work performed by the Audit Committee during 2015 included:

(i) review of the terms of reference of the Audit Committee and of the Controls and Compliance Committee (now known as Risk Management, Controls and Compliance Committee), with a recommendation to the Company Board for approval the proposed amendments;

(ii) review of the annual report and the annual results announcement for the year ended December 31, 2014, with a recommendation to the Company 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, 2014, with a recommendation to the Company Board for the re-appointment of PricewaterhouseCoopers at the 2015 Combined Annual General Meeting;

(iv) review of the annual report on effectiveness of internal controls under the CG Code, with a recommendation to the Company 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, 2014, with a recommendation to the Company Board for approval;

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Audit Committee *(continued)*

(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, 2015, with a recommendation to the Company 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, 2015;

(ix) review and approval of the audit strategy memorandum (including the terms of audit engagement) for the year ending December 31, 2015;

(x) review and approval of the report by Risk Management and Compliance department on review of the HKT Limited Group's risk management, corporate governance and internal control systems;

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

(xii) consideration and approval of 2015 audit and non-audit services and the 2016 annual budget for audit and non-audit services;

(xiii) review of the corporate governance report and practices for the year ended December 31, 2014 and the corporate governance disclosure for the six months ended June 30, 2015, with a recommendation to the Company Board for approval;

(xiv) review of the results of the directors' self-evaluation exercise for the year ended December 31, 2014 to review director's performance of his/her responsibilities and time commitment to the Company's affairs, with a recommendation to the Company Board for approval; and

(xv) review and monitoring of training and continuous professional development for directors and senior management.

Subsequent to the year end, the Audit Committee reviewed the annual report and the annual results announcement for the year ended December 31, 2015, with a recommendation to the Company Board for approval.

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 primarily with the CK Hutchison Holdings Limited Group, Cheung Kong Property Holdings Limited Group and Hong Kong Economic Journal Company Limited 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:
Professor Chang Hsin Kang *(Chairman)*
Sunil Varma
Li Fushen

COMMITTEE OF THE TRUSTEE-MANAGER BOARD

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

The Trustee-Manager Audit Committee is responsible for assisting the Trustee-Manager Board to ensure objectivity and credibility of financial reporting of the HKT Trust and the Trustee-Manager, and that the directors of the Trustee-Manager have exercised the care, diligence and skills prescribed by law when presenting the HKT Trust's and the Trustee-Manager's results to the registered holders of Share Stapled Units. The Trustee-Manager Audit Committee is also responsible for assisting the Trustee-Manager Board to ensure an effective system of internal controls of each of the HKT Trust and the Trustee-Manager (where applicable) is in place and to ensure good corporate governance standards and practices are maintained. In November 2015, the Trustee-Manager Board approved revision of the terms of reference of the Trustee-Manager Audit Committee effective for accounting period beginning on January 1, 2016 to enhance its accountability in risk management and internal control functions. 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 Trustee-Manager Audit Committee's responsibilities also include the appointment, compensation and supervision of the external auditors. To ensure the external auditors' independence, procedures have been adopted by the Trustee-Manager Audit Committee for the monitoring and approval of all audit and permitted non-audit services to be undertaken by the external auditors.

COMMITTEE OF THE TRUSTEE-MANAGER BOARD *(CONTINUED)*

The external auditor of the HKT Trust and the Trustee-Manager is PricewaterhouseCoopers. PricewaterhouseCoopers has written to the Trustee-Manager Audit Committee confirming that they are independent with respect to the HKT Trust and the Trustee-Manager and that there is no relationship between PricewaterhouseCoopers and the HKT Trust and the Trustee-Manager which may reasonably be thought to bear on their independence. In order to maintain the external auditor's independence, it would only be employed for non-audit work if the work does not compromise the external auditor's independence and has been approved by the Trustee-Manager Audit Committee.

During the year, the external auditor provided audit services to the HKT Trust and the Trustee-Manager. Audit services include services provided in connection with the audit of the consolidated financial statements of the HKT Trust and the HKT Limited Group and the financial statements of the Trustee-Manager. No audit related services or non-audit services have been provided by the external auditor.

For the year ended December 31, 2015, the fees paid or payable in respect of audit services provided to the HKT Trust and the Trustee-Manager by the external auditor amounted to approximately HK$0.045 million.

At its meeting held on February 25, 2016, the Trustee-Manager Audit Committee recommended to the Trustee-Manager Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the HKT Trust and the Trustee-Manager for the financial year 2016 at the forthcoming Combined Annual General Meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor. Furthermore, the fees and expenses of the auditors of the HKT Trust and the Trustee-Manager in connection with the audit of the financial statements of the HKT Trust and the Trustee-Manager are to be paid out of the Trust Property (as defined in the Trust Deed). The Trust Deed also requires that the membership of the Trustee-Manager Audit Committee must be the same as the membership of the Audit Committee of the Company Board.

The Trustee-Manager Audit Committee comprises three members, including two independent non-executive directors and one non-executive director and each of them is a member of the Audit Committee of the Company Board. The Trustee-Manager Audit Committee is chaired by an independent non-executive director.

The members of the Trustee-Manager Audit Committee during the year and up to the date of this annual report are:

Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
Peter Anthony Allen
(appointed with effect from the conclusion of the Combined Annual General Meeting held on May 7, 2015)
The Hon Raymond George Hardenbergh Seitz
(retired with effect from the conclusion of the Combined Annual General Meeting held on May 7, 2015)

The Trustee-Manager Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports. During 2015, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 24 of this annual report.

The Trustee-Manager Audit Committee reviewed and noted the resolutions passed and matters approved and confirmed at the Audit Committee of the Company, whose work performed during 2015 is set out under the heading of "**Audit Committee**" on pages 28 to 30 of this annual report, and where appropriate, approved and confirmed those items specific to the HKT Trust and the Trustee-Manager. Other work performed by the Trustee-Manager Audit Committee during 2015 included:

(i) review of the terms of reference of the Trustee-Manager Audit Committee, with a recommendation to the Trustee-Manager Board for approval the proposed amendments;

(ii) review of the financial information of the Trustee-Manager for the year ended December 31, 2014, with a recommendation to the Trustee-Manager Board for approval;

(iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Trustee-Manager Audit Committee and the management representation letter for the year ended December 31, 2014, with a recommendation to the Trustee-Manager Board for the re-appointment of PricewaterhouseCoopers at the 2015 Combined Annual General Meeting;

(iv) review and approval of continuing connected transactions (including PricewaterhouseCoopers' report on their review of continuing connected transactions) for the year ended December 31, 2014, with a recommendation to the Trustee-Manager Board for approval;

COMMITTEE OF THE TRUSTEE-MANAGER BOARD *(CONTINUED)*

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

(vi) review of the financial information of the Trustee-Manager for the six months ended June 30, 2015, with a recommendation to the Trustee-Manager Board for approval;

(vii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Trustee-Manager Audit Committee and the management representation letter for the six months ended June 30, 2015;

(viii) review and approval of the audit strategy memorandum (including the terms of audit engagement) for the year ending December 31, 2015; and

(ix) review and approval of PricewaterhouseCoopers' pre-year end report for the Trustee-Manager Audit Committee.

Subsequent to the year end, the Trustee-Manager Audit Committee reviewed the annual report and the annual results announcement of the HKT Trust (including the financial information of the Trustee-Manager) for the year ended December 31, 2015, with a recommendation to the Trustee-Manager Board for approval.

The Trustee-Manager has not established a separate Remuneration Committee and Nomination Committee as its directors are not entitled to any remuneration under the Trust Deed, and as the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals given the unique circumstances of the HKT Trust.

RISK MANAGEMENT AND INTERNAL CONTROLS

The directors of the Company and the Trustee-Manager are responsible for maintaining and reviewing the effectiveness of the internal controls of the HKT Limited Group and the HKT Trust, respectively, including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting and financial reporting function. Effective for the accounting period beginning on January 1, 2016, the directors of the Company and the Trustee-Manager, assisted by their respective Audit Committees and Risk Management, Controls and Compliance Committee, are required to assess the effectiveness of the risk management and internal control systems on an ongoing basis. Appropriate policies and control procedures have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the HKT Limited Group's performance are appropriately identified and managed. In the case of the Company, such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material misstatement or losses.

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

The Audit Committee of the Company and the Trustee-Manager Audit Committee (to the extent required) have established and oversee 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 of the Company and the Trustee-Manager Audit Committee have designated the Head of Group Internal Audit to receive on their behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations, arising from any investigation to him for consideration by the Audit Committee of the Company and the Trustee-Manager Audit Committee.

RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control 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 Boards and executive management of the Company on the adequacy and effectiveness of internal controls for the HKT Limited Group and the HKT Trust. The Head of Group Internal Audit reports directly to the Chairman of the Audit Committee, the Group Managing Director and the Group Chief Financial Officer of the Company.

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

During 2015, Group Internal Audit conducted selective reviews of the effectiveness of the system of internal controls of the HKT Limited Group and the HKT Trust over financial, operational, compliance controls and risk management functions with emphasis on information technology, data privacy, systems contingency planning and procurement. Additionally, heads of major business and corporate functions of the HKT Limited Group were required to undertake a control self-assessment of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee of the Company, which then reviewed and reported the same to the Company Board. The Audit Committee of the Company, the Trustee-Manager Audit Committee and the Boards were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the HKT Limited Group and the HKT Trust (including the Trustee-Manager) and considered the internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting and financial reporting function.

In addition to the review of risk management and 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 and effectiveness of the risk management and internal control systems and, where appropriate, recommendations will be adopted and enhancements to the risk management and internal controls will be made.

Further information on risk management and internal controls adopted and implemented by the HKT Limited Group and the HKT Trust is available under the "Corporate governance" section on the Company's website.

POTENTIAL CONFLICTS OF INTERESTS

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

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

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

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

POTENTIAL CONFLICTS OF INTERESTS *(CONTINUED)*

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

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

COMPANY SECRETARY

Ms Grace M.Y. Lee has been appointed as the Group General Counsel and Company Secretary of HKT Limited and the HKT Trust since June 2015. She is also the Group General Counsel and Company Secretary of PCCW. All directors of the Company and the Trustee-Manager have access to the advice and services of the company secretary, who is responsible for ensuring that the board procedures are followed, for advising the Boards on all corporate governance matters, and for arranging induction programs including briefings on the general and specific duties of directors under legal and regulatory requirements for newly appointed directors. The company secretary facilitates the induction and professional development of directors.

During the year ended December 31, 2015, Ms Lee has received no less than 15 hours of relevant professional training to refresh her skills and knowledge.

RIGHTS OF REGISTERED HOLDERS OF SHARE STAPLED UNITS

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

General meetings of the Company shall be convened on the written requisition of any two or more shareholders of the Company deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists holding as at the date of deposit of the requisition not less than, for as long as the Trust Deed remains in force, 5% or, thereafter, one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

The Trustee-Manager may (and the Trustee-Manager shall at the request in writing of registered holders of units of the HKT Trust holding not less than 5% of the units of the HKT Trust for the time being in issue and outstanding) at any time convene a meeting of registered holders of units at such time or place in Hong Kong.

Shareholders of the Company and the registered holders of units of the HKT Trust can refer to the detailed requirements and procedures as set forth in the relevant sections of the Company Articles and the Trust Deed when making any requisitions or proposals for transaction at the general meetings of the Company and the HKT Trust.

Procedures by which enquiries may be put to the Boards

Registered holders of Share Stapled Units may send enquiries to the Boards in writing c/o the Corporate Secretariat with the following contact details:

Attention:	Company Secretary
Address:	39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
Fax:	+852 2962 5926
Email:	cosec@hkt.com

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

The HKT Trust (including the Trustee-Manager) and the Company are committed to promoting and maintaining effective communication with the registered holders of Share Stapled Units (both individual and institutional) and other stakeholders. A Unitholders Communication Policy has been adopted for ensuring the HKT Trust and the Company provide the registered holders of Share Stapled Units and the investment community with appropriate and timely information about the HKT Trust and the Company in order to enable the registered holders of Share Stapled Units to exercise their rights in an informed manner, and to allow the investment community to engage actively with the HKT Trust and the Company. The Unitholders Communication Policy is available on the Company's website (www.hkt.com/ir).

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

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

INVESTOR RELATIONS AND COMMUNICATION WITH THE REGISTERED HOLDERS OF SHARE STAPLED UNITS *(CONTINUED)*

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their holdings in the Share Stapled Units, the business of the Company and the HKT Trust are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 179 of this annual report and also provided in the Unitholders Communication Policy.

Registered holders of Share Stapled Units are encouraged to attend the forthcoming Combined Annual General Meeting of the Company and the HKT Trust for which at least 20 clear business days' notice is given. At the meeting, directors will be available to answer questions on the business relating to HKT Limited Group 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, 2015, there were no changes to the Company Articles and the Trust Deed. An up to date consolidated version of these constitutional documents are available on the websites of the Company and the HKEx.

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

Grace M.Y. Lee
Group General Counsel and Company Secretary
Hong Kong, February 25, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Total revenue increased by 20% to HK$34,729 million
- Total EBITDA increased by 18% to HK$12,100 million
- Profit attributable to holders of Share Stapled Units increased by 32% to HK$3,949 million; basic earnings per Share Stapled Unit was 52.21 HK cents
- Adjusted funds flow for the year increased by 22% to HK$4,093 million; adjusted funds flow per Share Stapled Unit was 54.06 HK cents
- Final distribution per Share Stapled Unit of 28.27 HK cents

MANAGEMENT REVIEW

We are pleased to announce another set of fruitful financial results for HKT for the year ended December 31, 2015, reflecting the underlying strength and resilience of each of our lines of business and further integration of CSL Holdings Limited ("CSL") during the year.

Total revenue for the year ended December 31, 2015 increased by 20% to HK$34,729 million and total EBITDA for the year was HK$12,100 million, an increase of 18% over the previous year. This growth reflected a full 12-month contribution and the significant cost synergies achieved from the CSL integration as well as sustained growth in the Telecommunications Services ("TSS") business.

Profit attributable to holders of Share Stapled Units was HK$3,949 million, an increase of 32% over the previous year. Basic earnings per Share Stapled Unit was 52.21 HK cents.

Adjusted funds flow for the year ended December 31, 2015 reached HK$4,093 million, an increase of 22% over the previous year. Adjusted funds flow per Share Stapled Unit was 54.06 HK cents.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution of 28.27 HK cents per Share Stapled Unit for the year ended December 31, 2015. This brings the 2015 full-year distribution to 54.06 HK cents per Share Stapled Unit (comprising 25.79 HK cents as interim and 28.27 HK cents as final distribution) representing the complete payout of the adjusted funds flow per Share Stapled Unit.

OUTLOOK

HKT will continue to innovate on services and create new engines for growth on the strong base of its fixed line, broadband, and mobile services.

HKT's broadband strength will continue to be our advantage in tapping the market for new demand and upgrade to fiber services including our first-in-market 10Gbps service. The suite of offerings will be complemented this year with a new integrated 4K all-in-one appliance.

HKT will also benefit from the emergence of more advanced mobile devices with high resolution display as well as a greater variety of content offerings which drive demand for higher mobile speeds and data usage.

In the meantime, upon completion of the consolidation of the mobile cell sites in 2015, we expect to record in 2016 the full-year cost synergies of the site rationalization.

The Hong Kong economy grew slowly last year as characterized by a weaker retail and consumer market. Both the local and external macro-economic environments are expected to remain challenging in 2016, while local competition is expected to remain keen. With this backdrop, HKT will cautiously examine any opportunities to maintain its competitiveness and leadership in the market while identifying ways of generating sustainable growth for the future.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2014 H1	2014 H2	2014 Full Year	**2015 H1**	**2015 H2**	**2015 Full Year**	Better/ (Worse) y-o-y
Revenue							
TSS	9,565	10,348	19,913	**10,145**	**10,732**	**20,877**	5%
Mobile	2,910	6,040	8,950	**6,044**	**8,273**	**14,317**	60%
Other Businesses	286	278	564	**84**	**123**	**207**	(63)%
Eliminations	(241)	(363)	(604)	**(299)**	**(373)**	**(672)**	(11)%
Total revenue	12,520	16,303	28,823	**15,974**	**18,755**	**34,729**	20%
Cost of sales	(5,333)	(6,720)	(12,053)	**(6,544)**	**(8,995)**	**(15,539)**	(29)%
Operating costs before depreciation, amortization, and (loss)/gain on disposal of property, plant and equipment, net	(2,762)	(3,766)	(6,528)	**(3,660)**	**(3,430)**	**(7,090)**	(9)%
EBITDA[1]							
TSS	3,594	3,768	7,362	**3,654**	**3,853**	**7,507**	2%
Mobile	965	2,182	3,147	**2,298**	**2,732**	**5,030**	60%
Other Businesses	(134)	(133)	(267)	**(182)**	**(255)**	**(437)**	(64)%
Total EBITDA[1]	4,425	5,817	10,242	**5,770**	**6,330**	**12,100**	18%
TSS EBITDA[1] Margin	*38%*	*36%*	*37%*	***36%***	***36%***	***36%***	
Mobile EBITDA[1] Margin	*33%*	*36%*	*35%*	***38%***	***33%***	***35%***	
Total EBITDA[1] Margin	*35%*	*36%*	*36%*	***36%***	***34%***	***35%***	
Depreciation and amortization	(2,350)	(3,536)	(5,886)	**(3,194)**	**(3,008)**	**(6,202)**	(5)%
(Loss)/gain on disposal of property, plant and equipment, net	(2)	–	(2)	**3**	**2**	**5**	NA
Other gains, net	41	58	99	**33**	**(15)**	**18**	(82)%
Finance costs, net	(452)	(672)	(1,124)	**(631)**	**(679)**	**(1,310)**	(17)%
Share of results of an associate and joint ventures	2	(31)	(29)	**(15)**	**(10)**	**(25)**	14%
Profit before income tax	1,664	1,636	3,300	**1,966**	**2,620**	**4,586**	39%

ADJUSTED FUNDS FLOW

For the year ended December 31, HK$ million	2014 H1	2014 H2	2014 Full Year	**2015 H1**	**2015 H2**	**2015 Full Year**	Better/ (Worse) y-o-y
Total EBITDA[1]	4,425	5,817	10,242	**5,770**	**6,330**	**12,100**	18%
Less cash outflows in respect of:							
Customer acquisition costs and licence fees	(770)	(2,032)	(2,802)	**(1,519)**	**(1,808)**	**(3,327)**	(19)%
Capital expenditures[6]	(1,135)	(1,375)	(2,510)	**(1,304)**	**(1,733)**	**(3,037)**	(21)%
Adjusted funds flow before tax paid, net finance costs paid and changes in working capital	2,520	2,410	4,930	**2,947**	**2,789**	**5,736**	16%
Adjusted for:							
Tax payment	(80)	(315)	(395)	**(75)**	**(290)**	**(365)**	8%
Net finance costs paid	(368)	(433)	(801)	**(435)**	**(467)**	**(902)**	(13)%
Changes in working capital	(482)	102	(380)	**(484)**	**108**	**(376)**	1%
Adjusted funds flow[2]	1,590	1,764	3,354	**1,953**	**2,140**	**4,093**	22%
Annual adjusted funds flow per Share Stapled Unit (HK cents)[3]			44.30			**54.06**	

KEY OPERATING DRIVERS[4]

	2014 H1	2014 H2	**2015 H1**	**2015 H2**	Better/ (Worse) y-o-y
Exchange lines in service ('000)	2,654	2,654	**2,657**	**2,654**	0%
Business lines ('000)	1,245	1,245	**1,248**	**1,249**	0%
Residential lines ('000)	1,409	1,409	**1,409**	**1,405**	0%
Total broadband access lines ('000) (Consumer, business and wholesale customers)	1,567	1,567	**1,567**	**1,572**	0%
Retail consumer broadband subscribers ('000)	1,408	1,404	**1,404**	**1,405**	0%
Retail business broadband subscribers ('000)	131	136	**138**	**144**	6%
Traditional data (Exit Gbps)	3,016	3,372	**3,673**	**4,072**	21%
Retail IDD minutes (million minutes)	431	397	**356**	**319**	(18)%
Mobile subscribers ('000)	4,512	4,585	**4,653**	**4,558**	(1)%
Post-paid subscribers ('000)	3,183	3,178	**3,147**	**3,127**	(2)%
Prepaid subscribers ('000)	1,329	1,407	**1,506**	**1,431**	2%

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 and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in an associate and joint ventures, and the Group's share of results of an associate 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 ("HKFRS") and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*

Note 2 *Adjusted funds flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRS and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRS, or an alternative to cash flow from operations or a measure of liquidity. The Group's Adjusted Funds Flow is computed in accordance with the above definition using financial information derived from the Group's audited consolidated financial statements. The Adjusted Funds Flow may be used for debt repayment.*

Note 3 *Annual adjusted funds flow per Share Stapled Unit is calculated by dividing the adjusted funds flow for the year by the number of Share Stapled Units in issue as at the respective year end.*

Note 4 *Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.*

Note 5 *Gross debt refers to the principal amount of short-term borrowings and long-term borrowings.*

Note 6 *Group capital expenditures represent additions to property, plant and equipment, and interests in leasehold land.*

Telecommunications Services

For the year ended December 31, HK$ million	2014 H1	2014 H2	2014 Full Year	**2015 H1**	**2015 H2**	**2015 Full Year**	Better/ (Worse) y-o-y
Local Telephony Services	1,682	1,801	3,483	**1,690**	**1,785**	**3,475**	0%
Local Data Services	3,236	3,490	6,726	**3,356**	**3,648**	**7,004**	4%
International Telecommunications Services	3,465	3,538	7,003	**3,869**	**3,544**	**7,413**	6%
Other Services	1,182	1,519	2,701	**1,230**	**1,755**	**2,985**	11%
TSS Revenue	9,565	10,348	19,913	**10,145**	**10,732**	**20,877**	5%
Cost of sales	(4,301)	(4,638)	(8,939)	**(4,569)**	**(4,903)**	**(9,472)**	(6)%
Operating costs before depreciation and amortization	(1,670)	(1,942)	(3,612)	**(1,922)**	**(1,976)**	**(3,898)**	(8)%
TSS EBITDA[1]	3,594	3,768	7,362	**3,654**	**3,853**	**7,507**	2%
TSS EBITDA[1] margin	*38%*	*36%*	*37%*	***36%***	***36%***	***36%***	

TSS revenue for the year ended December 31, 2015 increased by 5% to HK$20,877 million and EBITDA for the year increased by 2% to HK$7,507 million representing an EBITDA margin of 36%.

Local Telephony Services. Local telephony services revenue remained steady at HK$3,475 million for the year ended December 31, 2015, as compared to HK$3,483 million a year earlier. Total fixed lines in service at the end of December 2015 remained stable at 2.65 million.

Local Data Services. Local data services revenue, comprising broadband network revenue and local data revenue, increased by 4% to HK$7,004 million for the year ended December 31, 2015. The broadband network business maintained its growth momentum despite intense competition and reported a solid revenue growth of 5% during the year. This expansion in revenue was fueled by continued customer upgrades to our higher speed plans and supported by the strong content and value proposition of PCCW's now TV service. At the end of December 2015, there were 568,000 fiber-to-the-home ("FTTH") subscribers, which represented an increase of 13% from a year earlier. Local data revenue from the enterprise sector increased by 3% during the year due to the increased usage of customized projects such as cross border connectivity. This increase occurred despite persistent pricing pressure and slowing enterprise spending amid the weak economic conditions prevailing in Hong Kong.

International Telecommunications Services. International telecommunications services revenue for the year ended December 31, 2015 increased by 6% to HK$7,413 million, marking the sixth consecutive year of growth. This growth off an enlarged revenue base in 2015 reflected the continued strong demand for data connectivity services from both international carriers and enterprise customers and the upselling of additional value added services such as cyber security solutions and unified cloud-based communication services to these customers.

Other Services. Other services revenue primarily comprises revenue from the sales of network equipment and customer premises equipment ("CPE"), provision of technical and maintenance subcontracting services and contact centre services ("Teleservices"). Other services revenue for the year ended December 31, 2015 increased by 11% to HK$2,985 million on the back of growth in the Teleservices business and the completion of significant networking projects for commercial customers during the year.

Mobile

For the year ended December 31, HK$ million	2014 H1	2014 H2	2014 Full Year	**2015 H1**	**2015 H2**	**2015 Full Year**	Better/ (Worse) y-o-y
Mobile Services	2,328	4,570	6,898	**4,583**	**4,636**	**9,219**	34%
Handset Sales	582	1,470	2,052	**1,461**	**3,637**	**5,098**	148%
Mobile Revenue	2,910	6,040	8,950	**6,044**	**8,273**	**14,317**	60%
Mobile Services	964	2,123	3,087	**2,272**	**2,698**	**4,970**	61%
Handset Sales	1	59	60	**26**	**34**	**60**	0%
Mobile EBITDA[1]	965	2,182	3,147	**2,298**	**2,732**	**5,030**	60%
Mobile EBITDA[1] margin	*33%*	*36%*	*35%*	***38%***	***33%***	***35%***	
Mobile Services EBITDA[1] margin	*41%*	*46%*	*45%*	***50%***	***58%***	***54%***	

The Mobile business, which included the full 12-month contribution from the acquired CSL business, registered a 60% increase in total revenue to HK$14,317 million for the year ended December 31, 2015. The Mobile revenue represented 41% of total HKT revenues for the year ended December 31, 2015, as compared to 31% a year ago.

Mobile services revenue for the year ended December 31, 2015 increased by 34% to HK$9,219 million from HK$6,898 million a year earlier. The overall growth was moderated by an enlarged proportion of SIM-only plan customers and a gradual decline in IDD and roaming revenue during the year. Mobile data revenue soared by 40% and accounted for 71% of mobile services revenue for the year, while IDD and roaming revenue accounted for 17% of mobile services revenue.

Revenue from handset sales of HK$5,098 million was recorded during the year, as compared to HK$2,052 million a year earlier. HKT excels in our offering of a well diversified portfolio of handsets and our extensive retail network of strategically located shops throughout Hong Kong.

The post-paid exit average revenue per user ("ARPU") increased by 5% to HK$230 as at the end of December 2015 from HK$219 a year earlier. As at December 31, 2015, the total mobile customer base was 4,558,000, of which 3,127,000 were post-paid customers. Of these post-paid customers, approximately 80% were smart device users. The churn rate for post-paid customers improved to 1.4% in 2015, as compared to 1.5% a year earlier.

EBITDA for the year increased by 60% to HK$5,030 million representing a margin of 35%. The EBITDA margin for mobile services improved significantly to 54% from 45% a year earlier benefiting from the accelerated achievement of cost synergies from the integration of CSL. Integration of the radio cell sites was completed in December 2015, while the integration of the core mobile network has commenced and is expected to be completed in 2016.

Other Businesses

Revenue from Other Businesses was HK$207 million for the year ended December 31, 2015, as compared to HK$564 million a year ago. The decrease in revenue was mainly due to the disposal of the entire 38.2% effective equity interest in Unihub China Information Technology Company Limited and partly offset by the revenue recognized from Keycom plc which was acquired in April 2015. Keycom plc provides design, development and delivery of communications and multimedia services via high-speed connectivity in the United Kingdom.

Eliminations

Eliminations were HK$672 million for the year ended December 31, 2015, as compared to HK$604 million a year ago. Eliminations mainly related to internal charges for telecommunications services consumed amongst HKT's business units.

Cost of Sales

Cost of sales for the year ended December 31, 2015 increased by 29% to HK$15,539 million, which was in line with the revenue growth during the year. Gross margin was 55% in 2015, as compared to 58% a year ago, mainly due to the lower margin on mobile handset sales.

General and Administrative Expenses

During the year, operating costs before depreciation, amortization, and (loss)/gain on disposal of property, plant and equipment, net, ("operating costs") increased by 9% to HK$7,090 million as a result of the full-year impact of CSL as well as to support the business growth in the TSS and Mobile businesses and investments in new business initiatives such as Tap & Go mobile payment service and The Club loyalty and rewards program. Operating costs to revenue ratio for the TSS business increased slightly to 19% from 18% a year ago, while operating costs to revenue ratio for the Mobile business significantly improved to 21% from 31% a year ago as a result of the cost synergies achieved from the successful CSL integration.

Upon completion of the CSL acquisition in mid 2014, certain intangible assets attributable to the CSL mobile business have been recognized by the Group. The full-year impact of this as well as the increased customer acquisition costs driven by the growth in Mobile services of the Group as a whole resulted in the corresponding amortization charges for the year ended December 31, 2015 increasing as compared with 2014. On the other hand, during the network integration after the CSL acquisition, the useful lives of certain network assets were reassessed during 2014 which resulted in the recognition of one-off accelerated depreciation charges in that year. The combination of these factors led to total depreciation and amortization expenses increasing slightly by 5% to HK$6,202 million for the year ended December 31, 2015, from HK$5,886 million in 2014.

General and administrative expenses, therefore, increased by 7% to HK$13,287 million for the year ended December 31, 2015.

EBITDA[1]

As a result of the steady performance in the TSS business and the contribution from the enlarged Mobile business, overall EBITDA increased by 18% to HK$12,100 million for the year ended December 31, 2015. The EBITDA margin remained relatively stable at 35% for the year.

Finance Costs, Net

Net finance costs for the year ended December 31, 2015 increased to HK$1,310 million from HK$1,124 million a year ago. The increase in net finance costs was due to the full-year impact of interest on the borrowings raised to finance the CSL acquisition and the rebalancing of floating rate debt to fixed rate debt during the year. The average cost of debt was 2.8% in 2015, as compared to 2.5% a year ago.

Income Tax

Income tax expense for the year ended December 31, 2015 was HK$600 million, as compared to HK$242 million a year ago, representing an effective tax rate of 13% for the year. The increase in the tax expense is mainly due to increase in taxable profit resulting from the acquisition of mobile group companies.

Non-controlling Interests

Non-controlling interests of HK$37 million (2014: HK$67 million) primarily represented the net profit attributable to the minority shareholders of Sun Mobile Limited.

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

Profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2015 increased by 32% to HK$3,949 million (2014: HK$2,991 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.

During the year, HKT took advantage of the favorable interest rate environment and raised a total of approximately US$1,013 million through the issuance of US$300 million in 15-year, zero coupon guaranteed notes, US$500 million in 10-year, 3.625% guaranteed notes and €200 million in 12-year, 1.65% guaranteed notes. The use of proceeds was for general corporate purposes including the refinancing of outstanding debt. HKT's gross debt[5] was HK$36,849 million as at December 31, 2015 (December 31, 2014: HK$36,847 million). Cash and cash equivalents totaled HK$3,768 million as at December 31, 2015 (December 31, 2014: HK$3,613 million).

As at December 31, 2015, HKT had ample liquidity as evidenced by committed banking facilities totaling HK$26,671 million, of which HK$5,527 million remained undrawn.

HKT's gross debt[5] to total assets was 41% as at December 31, 2015 (December 31, 2014: 41%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2015, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE[6]

Capital expenditure including capitalized interest for the year ended December 31, 2015 was HK$3,054 million (2014: HK$2,529 million). Capital expenditure relative to revenue was 8.8% for the year ended December 31, 2015 (2014: 8.8%). These capital investments made during the year were attributable to the network integration and coverage improvement work for the Mobile business, outlays in relation to satisfying customers' demand for our high speed broadband fiber services, and the investment in an international submarine cable system.

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

HEDGING

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

Approximately three quarters of HKT'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 HKT's debt is denominated in foreign currency including United States dollars. Accordingly, HKT has entered into forward and 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, 2015, all forward and swap contracts were designated as cash flow hedges for the Company's foreign currency denominated borrowings.

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

CHARGE ON ASSETS

As at December 31, 2015, no assets of the Group (2014: nil) were pledged to secure loans and banking facilities of HKT.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2014	**2015**
Performance guarantees	2,076	**2,108**
Tender guarantees	52	–
Others	74	**65**
	2,202	**2,173**

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

HUMAN RESOURCES

HKT had approximately 19,400 employees as at December 31, 2015 (2014: 17,600) located in over 45 countries and cities. About 57% of these employees work in Hong Kong and the others are based mainly in mainland China, the Philippines and the United States. HKT has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for HKT as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND/DISTRIBUTION

The board of directors of the Trustee-Manager has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 28.27 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the trust deed dated November 7, 2011 constituting the HKT Trust (the "Trust Deed")), in respect of the year ended December 31, 2015 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 28.27 HK cents per ordinary share, in respect of the same period), subject to the approval of unitholders of the HKT Trust and of shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and of shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM"). An interim distribution/dividend of 25.79 HK cents per Share Stapled Unit/ordinary share of the Company for the six months ended June 30, 2015 was paid to holders of Share Stapled Units/shareholder of the Company in September 2015.

The board of directors of the Trustee-Manager has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Group have performed limited assurance procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants to review and verify the Trustee-Manager's calculation of the above distribution entitlement per Share Stapled Unit and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unitholders of the HKT Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the HKT Trust as they fall due.

FINANCIAL INFORMATION

COMBINED REPORT OF THE DIRECTORS

The board of directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) (the "Trustee-Manager Board") and the board of directors of HKT Limited (the "Company" or "HKT") (the "Company Board") present their combined report together with the audited consolidated financial statements of (i) the HKT Trust and the Company and its subsidiaries (collectively the "Group") and (ii) the Company and its subsidiaries (collectively the "HKT Limited Group") (the consolidated financial statements of the Group and the HKT Limited Group are presented together and referred to as the "HKT Trust and HKT Limited consolidated financial statements") for the year ended December 31, 2015.

The Trustee-Manager Board also presents its audited financial statements for the year ended December 31, 2015, which are set out in the accompanying financial statements on pages 169 to 178.

PRINCIPAL ACTIVITIES

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

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

The principal activities of the Company's principal subsidiaries, and the associate and principal joint venture of the Group are set out in notes 24, 20 and 21 respectively to the HKT Trust and HKT Limited consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 8 to the HKT Trust and HKT Limited consolidated financial statements.

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

BUSINESS REVIEW

A review of the business of the Group during the year and particulars of important events affecting the Group that have occurred since the end of the financial year 2015 as well as a discussion on the Group's future business development are provided in the Statement from the Chairman, the Statement from the Group Managing Director and the Management's Discussion and Analysis on page 12, pages 13 to 15 and pages 36 to 44 respectively.

Description of the principal risks and uncertainties facing the Group can be found in the paragraphs below.

Principal Risks and Uncertainties

The directors are aware that the Group is exposed to various risks, including some which are specific to the Group or the industries in which the Group operates as well as others that are common to most if not all other businesses. The directors have established a policy to ensure that significant risks which may adversely affect the Group's performance and ability to deliver on its strategies, as well as those which may present positive opportunities, are identified, reported, monitored, and managed on a continuous basis.

The following are key risks that are considered to be of most significance to the Group at this time. They have the potential to adversely and/or materially affect the Group's businesses, financial conditions, results of operations and growth prospects if they are not managed effectively. These key risks are by no means exhaustive or comprehensive, and there may be other risks, in addition to those shown below, which are not known to the Group or which may not be material now but could turn out to be material in the future.

BUSINESS REVIEW *(CONTINUED)*

Principal Risks and Uncertainties *(continued)*

Key risks related to the Group's businesses and to the industries in which the Group operates include:

Competition – The Group operates in markets and industries where the regulation's drive to open competition has led to increased competition, pricing pressure, loss of market share, and increased promotional, marketing and customer acquisition expenditures. The Group has operated in this competitive landscape for almost twenty years and has had to adapt its business strategies in light of the changed marketplace.

Financial – The Group operates in a number of jurisdictions and has significant indebtedness and obligations denominated in foreign currencies. The Group is exposed to financial risks, such as, foreign currency risks, interest rate risks and liquidity risks.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between unitholder 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. As for financing, a significant portion of the Group's debt is denominated in foreign currency including United States dollars. Accordingly, the Group has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates.

For details of the Group's financial management policies and strategies in managing these financial risks, please refer to the Management's Discussion and Analysis of this annual report and note 35 to the HKT Trust and HKT Limited consolidated financial statements.

Growth Strategy – The Group's business strategy may require it to develop its business both organically and through new business combinations, strategic investments, acquisitions and disposals. If market conditions change, if operations do not generate sufficient funds or for any other reason, the Group may decide to delay, modify or forgo some aspects of its growth strategy.

In addition, the Group continues to expand its operations overseas. This increases its exposure to multiple and occasionally conflicting regulatory regimes. The Group's lack of familiarity with such overseas markets, in particular the lack of clarity in, and interpretation of, continuously changing laws and regulations increases the risk of the Group's ability to successfully operate in such markets.

Technology – The Group's operations depend on its ability to innovate and the successful deployment of continuously evolving technologies, particularly its response to technological and industry developments, as well as its ability to foresee and/or rapidly adapt to the emergence of disruptive technologies.

The Group cannot be certain that technologies will be developed in time to meet changing market conditions, that they will perform according to expectations or that they will achieve commercial acceptance.

Additionally, any sustained failure of the Group's network, its servers, or any link in the delivery chain, whether from operational disruption, natural disaster, or otherwise, could have a material adverse effect on the Group's businesses, financial conditions and results of operations.

Cyber Security – The Group handles significant amounts of customer data, personal information and other sensitive commercial data which are susceptible to cyber threats. The Group's operations, reputation and financial performance could be adversely impacted if the Group sustains cyber-attacks and/or other data security breaches that disrupt its operations.

Economic Environment – The deterioration of global financial markets and a slowdown in global economies may result in a significant decline in demand for the Group's services across both consumer and corporate markets. In addition, changes in the global credit and financial markets may affect the availability of credit and lead to an increase in the cost of financing.

People – The Group's success and ability to grow depends largely on its ability to attract, train, retain, and motivate highly skilled and qualified managerial, sales, marketing, administrative, operating, and technical personnel. The loss of key personnel, or the inability to find additional qualified personnel, could materially and adversely affect the Group's prospects and results of operations.

BUSINESS REVIEW *(CONTINUED)*

Principal Risks and Uncertainties *(continued)*

Regulatory and Operational Compliance – The Group operates in markets and industries which require compliance with numerous regulations, including but not limited to, the Telecommunications Ordinance (Cap. 106), the Trade Descriptions Ordinance (Cap. 362), the Competition Ordinance (Cap. 619), and the Personal Data (Privacy) Ordinance (Cap. 486). The failure to comply with, or adverse changes to such regulations may adversely affect the Group's reputation, operations and financial performance. Please refer to sub-section headed "**Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group**" below for further discussion on this topic.

In addition, discussions on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are provided in the paragraphs below.

Environmental Policies and Performance

As a responsible corporate citizen, HKT recognizes the importance of good environmental stewardship. In this connection, HKT has adopted parent company PCCW's Corporate Social Responsibility ("CSR") Policy and other related policies and procedures. A Corporate Social Responsibility Committee sets forth and promulgates the Company's environmental strategy and other CSR initiatives.

The Company actively participates in various external environmental working groups. PCCW is a council member and one of the founding members of Business Environment Council. In 2015, HKT continued to voluntarily disclose its carbon footprint data for inclusion into the Environmental Protection Department's Carbon Footprint Repository. In November, HKT was awarded the CarbonCare® Action Label 2015 for implementing innovative carbon reduction solutions.

The Group has been investing in modernizing air-conditioning system and voice network equipment at the exchange centers with better energy efficiency to reduce electricity consumption and carbon emission. The Group has well-established practices in recycling obsolete copper cables and other materials. It also promotes proper handset recycling across its shop network. It has also adopted paperless systems and practices in its daily operations such as human resources and procurement as appropriate, as well as in retail shops and for customer services. In May 2015, HKT was awarded the Gold Award in the media and communication sector of the Hong Kong Awards for Environmental Excellence 2014 granted by the Environmental Campaign Committee and the Environmental Protection Department. By virtue of the award, HKT has also been recognized as a Hong Kong Green Organization. Last year, HKT also won the champion of the Biggest Unit Saver Award (Organization) of the Power Smart Energy Saving Contest 2014 organized by Friends of the Earth (HK) for the second year in a row.

Relationships with Stakeholders

HKT is committed to operating in a sustainable manner while balancing the interests of our various stakeholders including our employees, customers, suppliers, business partners and the community.

HKT considers its employees the key to sustainable business growth. We are committed to providing all employees a safe and harassment-free working environment with equal opportunities in relation to employment, reward management, training and career development. This commitment is incorporated in our Corporate Responsibility Policy and PCCW Group's Employment Policy. Workplace safety is a priority of the Company that, with due awareness of all employees throughout the year, the Company was able to maintain a high standard of health and safety measures in all company activities. By joining hands with Community Business and Hong Kong Society for the Aged, we have further helped promote removing barriers to inclusion for disabled talents and elderly employees. We have in place a fair and effective performance appraisal system and incentive bonus schemes designed to motivate and reward employees at all levels to deliver their best performance and achieve business performance targets. For talent acquisition and continuous development, the Company offers graduate trainee programs as well as leadership and talent development programs for fresh talent of different academic backgrounds. Furthermore, to improve employees' health awareness, the Company arranges monthly sessions on personal health care and encourages employees to engage in sports activities at two conveniently located sports centers.

HKT believes direct and effective communication is essential to building up a good partnership between management and employees. A Joint Staff Council is in place as one of the important means of communication. In addition to newsletters and communications through the intranet, the Company holds regular meetings and forums to brief employees on company developments and obtain their feedback and suggestions.

BUSINESS REVIEW *(CONTINUED)*

Relationships with Stakeholders *(continued)*

The Group is Hong Kong's premier telecommunications service provider with large customer bases across various services. Customer related key performance indicators are set out in the Management's Discussion and Analysis of this annual report.

As a customer-focused service provider, we consider customers as one of the most important stakeholders. We are committed to serving our customers to the best of our ability and continually elevating the level of service excellence. Our customer service representatives can be reached via telephone, or at retail shops and customer service centers. The Group has also embraced new media platforms as an effective communication channel with our customers. A Customer Advocacy program has been established to collect customer feedback and help us identify areas for further improvement. In recognition of its outstanding customer service, among other awards, the Group won 44 awards in different categories at the Hong Kong Call Centre Association Awards and the Service Retailers of the Year – Category Award (Telecommunications) granted by Hong Kong Retail Management Association in 2015. In addition, the Group has introduced a customer loyalty and rewards program, The Club, offering a wide variety of privileges to customers.

HKT is committed to upholding the highest ethical and professional standards when dealing with suppliers and contractors. The Group maintains relationship with more than 2,000 suppliers globally. To integrate CSR principles throughout our supply chain, the Company has in place the Group Purchasing Policy and Principles, and a Supplier Code of Conduct to facilitate a common means whereby we can better communicate with our business partners regarding their compliance with local regulations governing labor, health and safety, and the environment. In order to have a better and close monitoring of supplier performance, our buying units conduct supplier performance review yearly targeting our major suppliers and contractors, and will communicate with the suppliers with unsatisfactory rating for rectification or improvements.

Together with PCCW, HKT supports the community through a diverse range of initiatives serving the elderly, youth, children, students, physically and mentally handicapped, underprivileged and other groups in need, and also narrowing the digital divide in long run. Being the premier telecommunications provider in Hong Kong, the Group provides hardware and communications services for charities and various community groups in need. We care for the safety and communication needs of senior citizens with the continuous sponsorship for the Care for the Elderly Line and Personal Emergency Link service. PCCW has been sponsoring the Youth IT Summer Camp and providing annual scholarships and bursaries to students of computer science, information technology, and other disciplines.

PCCW Group's corporate volunteer team, comprising staff volunteers and their families from HKT and PCCW, last year ran 31 ongoing programs and 13 special programs for various charities and social services groups. In 2015, the volunteer team was once again given the Award of 10,000 Hours for Volunteer Service and the Merit of Highest Service Hour Award 2014 (Private Organizations – Category 1) by the Steering Committee on Promotion of Volunteer Service of the Social Welfare Department for contributing more than 10,000 hours of volunteer service to the community in 2014. In appreciation of the commitment of staff volunteers, HKT introduced a Volunteer Appreciation Scheme in July 2015 whereby employees participating in community services may be entitled to volunteer leave days.

HKT is a Caring Company of Hong Kong Council of Social Service's Caring Company Scheme.

Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group

The Group and its activities are subject to requirements under various laws. These include, among others, the Telecommunications Ordinance (Cap. 106), the Trade Descriptions Ordinance (Cap. 362), the Personal Data (Privacy) Ordinance (Cap. 486), the Competition Ordinance (Cap. 619), the Employment Ordinance (Cap. 57), and the applicable regulations, guidelines, policies and licence terms issued or promulgated under or in connection with these statutes. In addition, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") apply to the HKT Trust, HKT and the Trustee-Manager. The Company seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group. While these measures require considerable internal resources and result in additional operational cost, the Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

BUSINESS REVIEW *(CONTINUED)*

Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group *(continued)*

Telecommunications Ordinance ("TO")

The Hong Kong Government's policies relating to liberalization of the telecommunications industry has led to increased competition for the Group. Under the TO, the Group has certain obligations and the Communications Authority ("CA") has certain powers to direct the Group to take specified actions (for example, to undertake and provide certain interconnection services and facilities) and to impose the terms and conditions of interconnection. It may also direct its licensees to co-operate and share any facilities owned by them in the public interest. Under the TO, licensees may be fined up to HK$1 million for repeated breaches.

The CA has concurrent jurisdiction with the Customs and Excise Department to enforce the Trade Descriptions Ordinance and the Competition Commission ("CC") to enforce the Competition Ordinance. These statutes also have penalty clauses, including criminal liability under the Trade Descriptions Ordinance and civil liability under the Competition Ordinance. The Group ensures full compliance via training sessions and meetings with the affected business units. The business units would also request for regulatory and legal support as required. The Group has not been the subject of any substantial penalty or compliance investigation.

Trade Descriptions Ordinance ("TDO")

The enforcement of the TDO is generally undertaken by the Customs and Excise Department. To ensure compliance with the TDO, the Group conducts semi-annual training sessions for employees involved in sales and marketing. In addition, all sales and marketing materials are reviewed to ensure compliance. Under the TDO, misrepresentations as to the sale of goods or services, inappropriate sales practices and the omission of relevant information may be a criminal offence, with penalties up to a fine of HK$500,000 and imprisonment for 5 years. Liability may extend to the Group as well as employees.

Competition Ordinance ("CO")

The CO came into effect in December 2015 and is generally consistent with other competition laws. The enforcement of the CO is generally undertaken by the CC, although the CA has concurrent jurisdiction with the CC as to telecommunications and broadcasting licensees. To ensure compliance with the CO and various guidelines issued under the CO, the Group has conducted a series of training sessions for staff involved in sales, marketing, bids, pricing, contracts, strategy formation, etc. Under the CO, cartel activity (i.e., serious anti-competitive conduct) and abuse of significant market power carry a maximum penalty of 10% of annual turnover (up to 3 years). Personal liability up to the same amounts may also apply.

RESULTS, APPROPRIATIONS AND DISTRIBUTIONS

The results of the Group for the year ended December 31, 2015 are set out in the consolidated income statement of HKT Trust and of HKT Limited on page 70.

The results of the Trustee-Manager for the year ended December 31, 2015 are set out in the income statement of HKT Management Limited on page 170.

An interim distribution/dividend of 25.79 HK cents per share stapled unit of HKT Trust and the Company (the "Share Stapled Unit")/ordinary share of the Company for the six months ended June 30, 2015 was paid to holders of Share Stapled Units/shareholder of the Company in September 2015.

The Trustee-Manager Board has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 28.27 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the Trust Deed (as defined below)), in respect of the year ended December 31, 2015 (and in order to enable the HKT Trust to pay that distribution, the Company Board has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 28.27 HK cents per ordinary share, in respect of the same period), subject to the approval of unitholders of the HKT Trust and of shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and of shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM").

The Trustee-Manager Board does not recommend the payment of a final dividend for the year ended December 31, 2015 to CAS Holding No. 1 Limited, the sole member of the Trustee-Manager.

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 168.

FIXED ASSETS

Details of movements in the Group's property, plant and equipment, and interests in leasehold land during the year are set out in notes 16 and 17 respectively to the HKT Trust and HKT Limited consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings are set out in notes 25(e) and 26 to the HKT Trust and HKT Limited consolidated financial statements.

SHARE STAPLED UNITS/SHARES ISSUED

There were no new Share Stapled Units/shares of the Company issued during the year ended December 31, 2015. Details of the share capital of the Company for the year ended December 31, 2015 are set out in note 29 to the HKT Trust and HKT Limited consolidated financial statements.

There were no new shares of the Trustee-Manager issued during the year ended December 31, 2015. Details of the share capital of the Trustee-Manager for the year ended December 31, 2015 are set out in note 7 to the financial statements of the Trustee-Manager.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in notes 29 and 30 respectively to the HKT Trust and HKT Limited consolidated financial statements.

The statement of changes in equity of HKT Management Limited during the year is set out on page 173.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2015, less than 30% of the Group's revenue from sales of goods or rendering of services was attributable to the Group's five largest customers, and less than 30% of the Group's purchases were attributable to the Group's five largest suppliers.

DIRECTORS

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

Executive Directors
Li Tzar Kai, Richard *(Executive Chairman)*
Alexander Anthony Arena *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*

Non-Executive Directors
Peter Anthony Allen
Chung Cho Yee, Mico
Lu Yimin
Li Fushen
Srinivas Bangalore Gangaiah (aka BG Srinivas)

Independent Non-Executive Directors

Professor Chang Hsin Kang, FREng, GBS, JP	
The Hon Raymond George Hardenbergh Seitz	(retired with effect from the conclusion of the combined AGM held on May 7, 2015)
Sunil Varma	
Aman Mehta	
Frances Waikwun Wong	(appointed with effect from the conclusion of the combined AGM held on May 7, 2015)

DIRECTORS *(CONTINUED)*

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

In accordance with the Company's amended and restated articles of association and the Trust Deed, Hui Hon Hing, Susanna, Peter Anthony Allen, Li Fushen, Professor Chang Hsin Kang and Frances Waikwun Wong shall retire from office of both the Company and the Trustee-Manager at the forthcoming AGM and, being eligible, offer themselves for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Trustee-Manager and the Company together have received from each of their independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and consider that all four independent non-executive Directors as at the date of this report, namely, Professor Chang Hsin Kang, Sunil Varma, Aman Mehta and Frances Waikwun Wong 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 PCCW) 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) and Akash Mehta (the adult son of Aman Mehta) (together, the "Mehta Family") and Sky Advance Associates Limited ("Sky Advance", a company controlled by Akash Mehta) in relation to a proposed restructuring (the "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 Restructuring, Pasha Ventures was amalgamated with KSH and Pasha Ventures ceased to be a subsidiary of PCRD and was dissolved in June 2013. Accordingly, 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, PCCW, the Company or the Trustee-Manager.

Notwithstanding Aman Mehta's investment in KSH, the Company and the Trustee-Manager are 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 AGM has an unexpired service contract with the HKT Limited Group which is not determinable by the HKT Limited Group within one year without payment of compensation (other than statutory compensation).

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

As at December 31, 2015, the Directors, the chief executives of the Company and the Trustee-Manager (collectively referred to as the "Chief Executives") and their respective close associates had the following interests and short positions in the Share Stapled Units and underlying Share Stapled Units, and the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register(s) required to be kept under Section 352 of the SFO or as otherwise notified to the Company, the Trustee-Manager and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules:

1. Interests in HKT Trust and HKT Limited

The table below sets out the aggregate long positions in the Share Stapled Units held by the Directors and the Chief Executives:

Name of Director/ Chief Executive	Number of Share Stapled Units held: Personal interests	Family interests	Corporate interests	Other interests	Number of underlying Share Stapled Units held under equity derivatives	Total	Approximate percentage of the total number of Share Stapled Units in issue
Li Tzar Kai, Richard	–	–	66,247,614 *(Note 1(a))*	144,786,423 *(Note 1(b))*	–	211,034,037	2.79%
Alexander Anthony Arena	1,842,092	–	–	1,205,149 *(Note 2)*	–	3,047,241	0.04%
Hui Hon Hing, Susanna	1,238,744	–	–	1,159,003 *(Note 2)*	–	2,397,747	0.03%
Peter Anthony Allen	21,530	–	–	–	–	21,530	0.0003%
Chung Cho Yee, Mico	99,238	946 *(Note 3)*	–	–	–	100,184	0.001%
Professor Chang Hsin Kang	2,790	–	–	–	–	2,790	0.00004%

Each Share Stapled Unit confers an interest in:

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

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

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

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

1. Interests in HKT Trust and HKT Limited *(continued)*

Notes:

1. (a) Of these Share Stapled Units, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 20,227,614 Share Stapled Units and Eisner Investments Limited ("Eisner") held 46,020,000 Share Stapled Units. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.

   (b) These interests represented:

   (i) a deemed interest in 13,159,619 Share Stapled Units 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 13,159,619 Share Stapled Units held by PCGH; and

   (ii) a deemed interest in 131,626,804 Share Stapled Units 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 88.48% 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 131,626,804 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.06% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard.

2. These interests represented awards made to these Directors which were subject to certain vesting conditions pursuant to an award scheme of the Company, namely the HKT Share Stapled Units Purchase Scheme, the details of which are set out in the section below headed "**Share Stapled Units Award Schemes**".

3. These Share Stapled Units were held by the spouse of Chung Cho Yee, Mico.

2. Interests in the Associated Corporations of the Company

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

The table below sets out the aggregate long positions in the shares and underlying shares of PCCW held by the Directors and the Chief Executives:

Name of Director/ Chief Executive	Number of ordinary shares of PCCW held: Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares of PCCW held under equity derivatives	Total	Approximate percentage of the total number of shares of PCCW in issue
Li Tzar Kai, Richard	–	–	297,738,591 *(Note 1(a))*	1,866,432,475 *(Note 1(b))*	–	2,164,171,066	28.40%
Alexander Anthony Arena *(Note 4)*	830,834	–	–	195,793 *(Note 3)*	200 *(Note 2)*	1,026,827	0.01%
Hui Hon Hing, Susanna	2,148,558	–	–	1,806,996 *(Note 3)*	–	3,955,554	0.05%
Peter Anthony Allen	272,208	–	–	–	–	272,208	0.004%
Chung Cho Yee, Mico	1,176,260	18,455 *(Note 5)*	–	–	–	1,194,715	0.02%
Srinivas Bangalore Gangaiah	–	–	–	207,597 *(Note 3)*	–	207,597	0.003%
Professor Chang Hsin Kang	64,180	–	–	–	–	64,180	0.001%

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

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

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

Notes:

1. (a) Of these PCCW shares, PCD held 260,752,905 shares and Eisner held 36,985,686 shares.

   (b) These interests represented:

   (i) a deemed interest in 169,639,855 shares of PCCW held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 169,639,855 shares of PCCW held by PCGH; and

   (ii) a deemed interest in 1,696,792,620 shares of PCCW held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,696,792,620 shares of PCCW held by PCRD.

2. These interests represented Alexander Anthony Arena's beneficial interest in 200 underlying shares of PCCW held in the form of 20 American Depositary Receipts which constituted listed equity derivatives.

3. These interests represented award(s) made to these Directors which were subject to certain vesting conditions pursuant to an award scheme of PCCW, namely the Purchase Scheme.

4. As disclosed previously in the annual reports and interim reports of PCCW and HKT Trust and HKT Limited, in 2009 a private company owned by Li Tzar Kai, Richard has provided a seven year interest-free loan in the amount of US$10,000,000 to Alexander Anthony Arena at his request and for personal reasons. Alexander Anthony Arena has entered into a seven year consultancy agreement with another private company owned by Li Tzar Kai, Richard with an annual consultancy fee sufficient to repay the aforementioned loan over its seven year term. This private arrangement was reviewed by the remuneration committee of PCCW prior to its finalization. The committee noted that the consultancy services provided to the private company would be publicly disclosed, would not conflict with Alexander Anthony Arena's duties at PCCW and overall would be in the interests of PCCW. Subsequent amendments made permit part of the loan previously repaid to be re-drawn, as an interest bearing loan repayable in cash within the original seven year term.

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

B. PCCW-HKT Capital No.4 Limited (an indirect wholly-owned subsidiary of the Company and therefore an associated corporation)

FWD Life Insurance Company (Bermuda) Limited ("FWD") held US$9,000,000 of 4.25% guaranteed notes due 2016 (the "Notes") issued by PCCW-HKT Capital No.4 Limited. Li Tzar Kai, Richard indirectly owned an approximate 84.68% interest in FWD. The Notes have a maturity date of February 24, 2016.

Save as disclosed in the foregoing, as at December 31, 2015, none of the Directors or the Chief Executives or their respective close associates had any interests or short positions in any Share Stapled Units or underlying Share Stapled Units or in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register(s) required to be kept under Section 352 of the SFO or as otherwise notified to the Company, the Trustee-Manager and the Stock Exchange pursuant to the Model Code of the Listing Rules.

SHARE STAPLED UNITS OPTION SCHEME

The HKT Trust and the Company conditionally adopted on November 7, 2011 (the "Adoption Date") a Share Stapled Units option scheme (the "2011-2021 Option Scheme") which became effective upon listing of the Share Stapled Units. Under the 2011-2021 Option Scheme, the Trustee-Manager Board and the Company Board shall be entitled to offer to grant a Share Stapled Unit option to any eligible participant the Trustee-Manager Board and the Company Board may, at their absolute discretion, select. The major terms of the 2011-2021 Option Scheme are set out below:

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

SHARE STAPLED UNITS OPTION SCHEME *(CONTINUED)*

(2) Eligible participants include (a) any full time or part time employee of the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of the Company and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries. The Trustee-Manager is not an eligible participant under the 2011-2021 Option Scheme.

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

(ii) Subject to the further limitation in (i) above, as required by the Listing Rules, the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and the Company 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 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and the Company must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the 2011-2021 Option Scheme if this will result in such limit being exceeded.

As at the date of this annual report, the total number of Share Stapled Units available for issue in respect of which options may be granted under the 2011-2021 Option Scheme is 641,673,079, representing approximately 8.47% of the Share Stapled Units in issue as at that date.

(4) The total number of Share Stapled Units issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial holder of Share Stapled Units or an independent non-executive director of the Company, or any of their respective associates) under the 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the 2011-2021 Option Scheme) in any 12-month period shall not exceed 1% of the Share Stapled Units in issue at the relevant time. For options granted or to be granted to a substantial holder of Share Stapled Units or an independent non-executive director of the Company, or any of their respective associates, the said limit is reduced to 0.1% of the Share Stapled Units in issue and HK$5 million in aggregate value based on the closing price of the Share Stapled Units on the date of each grant. Any further grant of Share Stapled Unit options in excess of such limits is subject to the approval of registered holders of Share Stapled Units at general meeting.

(5) The 2011-2021 Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2011-2021 Option Scheme shall be determined by the Trustee-Manager Board and the Company Board, provided that such terms and conditions shall not be inconsistent with the 2011-2021 Option Scheme and no option may be exercised 10 years after the date of grant.

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

(7) The subscription price for Share Stapled Units in respect of any particular option 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 grant, which must be a business day; (ii) the average closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet for the 5 business days immediately preceding the date of grant; and (iii) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.

SHARE STAPLED UNITS OPTION SCHEME *(CONTINUED)*

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

No Share Stapled Unit options have been granted under the 2011-2021 Option Scheme since its adoption and up to and including December 31, 2015.

SHARE STAPLED UNITS AWARD SCHEMES

On October 11, 2011, the Company conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "Share Stapled Units Award Schemes"). The purposes of the Share Stapled Units Award Schemes are to incentivize and reward eligible participants for their contribution to the growth of the HKT Limited Group and to provide the HKT Limited Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants.

Eligible participants of the HKT Share Stapled Units Purchase Scheme include (a) any full time or part time employees of the Company and/or any of its subsidiaries; and (b) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries. Eligible participants of the HKT Share Stapled Units Subscription Scheme are the same as the HKT Share Stapled Units Purchase Scheme except that the directors of the Company or its subsidiaries and/or any other connected persons of the Company are not eligible participants.

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

Pursuant to the scheme rules, no sum of money shall be set aside and no Share Stapled Units shall be purchased or subscribed (as the case may be), nor any amounts paid to the Trustee for the purpose of making such a purchase or subscription, if, as a result of such purchase or subscription, the number of Share Stapled Units administered under the respective schemes would represent in excess of 1% of the total number of Share Stapled Units in issue from time to time, excluding the Share Stapled Units which have been transferred to eligible participants on vesting. In addition, under the HKT Share Stapled Units Subscription Scheme, no sum of money shall be set aside and no Share Stapled Units shall be subscribed nor any amounts paid to the Trustee for the purpose of making such a subscription if:

(i) as a result of such subscription, PCCW's aggregate holding of Share Stapled Units would on a fully-diluted basis (which shall take into account the relevant subscription(s) proposed to be made under the HKT Share Stapled Units Subscription Scheme, the amount of all outstanding options in respect of Share Stapled Units as granted pursuant to the 2011-2021 Option Scheme, and all other rights or entitlements granted by the Company concerning the prospective allotment of new Share Stapled Units) represent less than 51% of the total number of Share Stapled Units as would exist were all such commitments to allot new Share Stapled Units to be duly fulfilled; or

(ii) the Company does not have a relevant general mandate or specific mandate from holders of Share Stapled Units necessary to effect the allotment and issue of Share Stapled Units pursuant to the scheme.

In respect of the HKT Share Stapled Units Purchase Scheme, the relevant committee of the Company Board may either (i) set aside a sum of money; or (ii) determine a number of Share Stapled Units which it wishes to be the subject of a bonus award. The relevant committee of the Company Board must then pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Share Stapled Units, as the case may be, to the Trustee (or as it shall direct) from the HKT Limited Group's resources, and the Trustee will then apply the same towards the purchase of the relevant Share Stapled Units on the Stock Exchange pursuant to the trust deed.

SHARE STAPLED UNITS AWARD SCHEMES *(CONTINUED)*

In respect of the HKT Share Stapled Units Subscription Scheme, the relevant committee of the Company Board will determine a number of Share Stapled Units which it wishes to be the subject of a bonus award. The relevant committee of the Company Board must then pay (or cause to be paid) an amount sufficient to subscribe for that number of Share Stapled Units at the Specified Price (as defined below) from the HKT Limited Group's resources, and the Trustee shall then apply the same towards the subscription of the awarded Share Stapled Units at the Specified Price, provided always that no Share Stapled Units shall be allotted in respect of such subscription unless and until the Company shall have received from the Stock Exchange a grant of the listing of, and permission to deal in, such Share Stapled Units. For these purposes, the "Specified Price" means the price determined by the Company in conjunction with the Trustee-Manager as being the higher of:

(i) the closing price of the Share Stapled Units on the Stock Exchange on the trading day immediately preceding the relevant award date; and

(ii) the average of the closing prices of the Share Stapled Units on the Stock Exchange in the 10 trading days immediately prior to the earlier of (a) the date of announcement (if applicable) of the proposed allotment of the relevant Share Stapled Units pursuant to an award under the scheme; (b) the relevant award date; and (c) the date on which the allotment price for the relevant Share Stapled Units is otherwise fixed.

Subject to the relevant scheme rules, each scheme provides that following the making of an award to an employee of the HKT Limited Group, the relevant Share Stapled Units are held in trust for that employee and then shall vest over a period of time determined by the Company Board 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 Company Board shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, eligible participants are not required to provide any consideration in order to acquire the Share Stapled Units awarded to him/her under the schemes.

The Share Stapled Units Award Schemes, unless terminated earlier, shall be valid and effective for a term of 10 years commencing from October 11, 2011, being the date of adoption. The Company Board may also by resolution terminate the operation of the schemes at any time subject to the terms of the schemes.

During the year ended December 31, 2015, an aggregate of 1,572,820 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 99,690 and 280,370 Share Stapled Units made respectively to Alexander Anthony Arena and Hui Hon Hing, Susanna (the directors of the Company and the Trustee-Manager). Additionally, 705,059 Share Stapled Units have lapsed and/or been forfeited and 5,707,168 Share Stapled Units have vested during the year.

As at the date of this annual report, an aggregate of 8,155,710 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested, which represents approximately 0.11% of the total number of Share Stapled Units in issue as at that date. No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2015.

Further details of the Share Stapled Units Award Schemes, including the fair values of the Share Stapled Units on the respective dates of award, are set out in note 28(b)(iii) to the HKT Trust and HKT Limited consolidated financial statements.

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

EQUITY-LINKED AGREEMENTS

Details of the 2011-2021 Option Scheme adopted by the HKT Trust and the Company are set out in the section above headed "**Share Stapled Units Option Scheme**" and note 28(b)(ii) to the HKT Trust and HKT Limited consolidated financial statements.

Details of the Share Stapled Units Award Schemes adopted by the Company are set out in the section above headed "**Share Stapled Units Award Schemes**" and note 28(b)(iii) to the HKT Trust and HKT Limited consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL HOLDERS OF SHARE STAPLED UNITS

As at December 31, 2015, the following persons (other than any Directors or Chief Executives) were substantial holders of Share Stapled Units, and of ordinary shares and preference shares in the Company, and had interests or short positions in the Share Stapled Units and underlying Share Stapled Units, and in the shares and underlying shares of the Company as recorded in the register(s) required to be kept under Section 336 of the SFO:

Name	Capacity	Number of Share Stapled Units held	Approximate percentage of the total number of Share Stapled Units in issue	*Note*
PCCW	Interest in controlled entity	4,775,714,681	63.07%	1
CAS Holding No. 1 Limited	Beneficial interest	4,775,714,681	63.07%	
The Capital Group Companies, Inc.	Interest in controlled entities	521,840,700	6.89%	2

Each Share Stapled Unit confers an interest in:

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

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

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

Notes:

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

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

2. Based on a disclosure of interest form made by The Capital Group Companies, Inc. under Part XV of the SFO on or about October 16, 2015, The Capital Group Companies, Inc. indirectly held these interests through its direct/indirect wholly-owned subsidiaries.

Save as disclosed above in this section, the Trustee-Manager and the Company have not been notified of any other persons (other than any Directors or Chief Executives) who had an interest or a short position in the Share Stapled Units or underlying Share Stapled Units, or in the shares, underlying shares or debentures of the Company as recorded in the register(s) required to be kept under Section 336 of the SFO as at December 31, 2015.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Details of the continuing connected transactions and significant related party transactions are disclosed in this report and in note 6 to the HKT Trust and HKT Limited consolidated financial statements, as well as in note 4 to the Trustee-Manager's financial statements.

Save for the above, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Trustee-Manager, the Company, or any of its subsidiaries, fellow subsidiaries or parent company was a party, and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

The Trustee-Manager has the necessary powers under the Trust Deed to perform its function of administering the HKT Trust.

Save for the Trust Deed, no contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of any business of the HKT Trust, the Company and the Trustee-Manager entered into or subsisted during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2015, the interests of the Directors in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Li Tzar Kai, Richard

In 2015, Cheung Kong (Holdings) Limited ("Cheung Kong") and Hutchison Whampoa Limited ("HWL") completed a series of corporate activities (the "Reorganization") whereby CK Hutchison Holdings Limited ("CKH Holdings") and Cheung Kong Property Holdings Limited ("CK Property") were created to hold the respective businesses of Cheung Kong and HWL. CKH Holdings has its own management separate from the HKT Limited Group. CKH Holdings and its subsidiaries are involved in the core business of ports and related services, retail, infrastructure, energy and telecommunications. Certain businesses of CKH Holdings may compete with certain aspects of the businesses of the HKT Limited Group during the year.

Prior to the completion of the Reorganization, Li Tzar Kai, Richard had a personal interest in 110,000 shares in HWL, and was one of the discretionary beneficiaries of certain discretionary trusts which held units in unit trusts which in turn were interested in certain shares of Cheung Kong and HWL. Immediately following completion of the Reorganization where certain shares of Cheung Kong and HWL were exchanged for the shares of CKH Holdings and CK Property, Li Tzar Kai, Richard has a personal interest in 75,240 shares in each of CKH Holdings and CK Property, 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 CKH Holdings and CK Property. Li Tzar Kai, Richard does not hold any shares in HWL after the Reorganization.

Lu Yimin and Li Fushen

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

Li Fushen is an executive director and Chief Financial Officer of China Unicom (Hong Kong) Limited. He is 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.

For identification only

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(CONTINUED)*

Lu Yimin and Li Fushen *(continued)*

China Unicom (Hong Kong) Limited is a company listed on the New York Stock Exchange and the main board of the Stock Exchange. 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#) is the ultimate parent company of China Unicom (Hong Kong) Limited and China United Network Communications Limited is a shareholder of China Unicom (Hong Kong) Limited. China United Network Communications Corporation Limited is a subsidiary of China Unicom (Hong Kong) Limited. China United Network Communications Limited is a company listed on the Shanghai Stock Exchange. Save for Lu Yimin and Li Fushen, each of these companies has its own management team separate from the HKT Limited Group. These companies are involved in the business of provision of wireless, fixed-line, broadband, data and related value-added services and compete with certain aspects of the business of the HKT Limited Group.

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

PERMITTED INDEMNITY

As permitted by the Trust Deed, the Trustee-Manager and any director of the Trustee-Manager shall be indemnified out of, and shall be entitled for the purpose of indemnity to have recourse to, the Trust Property (as defined in the Trust Deed) or any part thereof against any action, costs, claims, damages, expenses, penalties or demands to which it or he/she may be put as Trustee-Manager of the HKT Trust.

According to the Company's amended and restated articles of association, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a director of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

According to the articles of association of the Trustee-Manager and subject to the provisions of the Companies Ordinance (Cap. 622), every director and managing director for the time being of the Trustee-Manager shall be indemnified out of the assets of the Trustee-Manager (excluding, for the avoidance of doubt, the Trust Property) against any liability incurred by him/her in relation to the Trustee-Manager in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favour or in which he/she is acquitted.

In addition, PCCW has maintained appropriate directors and officers liability insurance cover for the directors and officers of its subsidiaries (including the HKT Limited Group and the Trustee-Manager).

DONATIONS

During the year, the Group made donations of approximately HK$110,000 for charitable and other purposes (2014: HK$208,000 for charitable purposes).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

During the year ended December 31, 2015, none of the HKT Trust (including the Trustee-Manager), the Company or the Company's subsidiaries purchased, sold or redeemed any Share Stapled Units.

For identification only

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the announcement dated December 27, 2013 jointly issued by the Trustee-Manager and the Company, members of the HKT Limited Group have entered into various agreements with PCCW and/or its other subsidiaries (collectively, the "PCCW Group") as described in paragraphs (1) to (17) below. The transactions contemplated under these agreements constituted continuing connected transactions (as defined in the Listing Rules) of the HKT Limited Group because PCCW is the controlling holder of the Share Stapled Units in issue and therefore a connected person (as defined in the Listing Rules) of the HKT Trust and the Company. Each of these agreements is for a term of three years effective from January 1, 2014 to December 31, 2016. It is considered that the entering into of these continuing connected transactions with the PCCW Group will help to achieve business continuity and efficiency as well as to minimize any potential disruption to the daily operation of the HKT Limited Group. The Company and the Trustee-Manager have complied with the applicable requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions during the year 2015. Details of these transactions are set out below in accordance with the Listing Rules.

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

(1) The provision of carriage services

On December 27, 2013, Hong Kong Telecommunications (HKT) Limited ("HK Telecom"), an indirect wholly-owned subsidiary of the Company, and PCCW Media Limited ("PCCW Media"), an indirect wholly-owned subsidiary of PCCW, entered into a carriage services agreement, pursuant to which HK Telecom has agreed to provide or procure the provision of carriage services to the Media Group to facilitate the Media Group's delivery of its pay television and other services to its customers.

(2) The provision of marketing and sales services

On December 27, 2013, HK Telecom and PCCW Media entered into a marketing and sales services agreement, pursuant to which HK Telecom has agreed to market and sell Media Group products and services through the HKT Limited Group's direct marketing staff, front-line (i.e. on the street) sales teams, shops and via its call centres; and to provide a unified call-centre support service. This agreement is the reciprocal arrangement of the agreement referred to in paragraph (6) below, on like terms, governing sales by the Media Group's dedicated sales staff of the HKT Limited Group's products and services.

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

On December 27, 2013, HK Telecom and PCCW Media entered into an internal (specialist telecom) services agreement, pursuant to which HK Telecom has agreed to procure that relevant members of the HKT Limited Group provide to the Media Group a range of specialized support services that are integral to the operation of the Media Group's business.

(4) Licensed access to floor space

On December 27, 2013, PCCW Media has been afforded certain limited access rights to floor space for it and members of the Media Group at a number of premises of PCCW-HKT Telephone Limited ("HKTC", an indirect wholly-owned subsidiary of PCCW) ("HKTC's Premises"). Pursuant to a licence agreement signed between HK Telecom and HKTC, HKTC granted to HK Telecom a licence to, among other things, install, store, operate and maintain equipment, machinery, chattels and installations at HKTC's Premises. HKTC continues to meet and defray all costs, expenses and outgoings of HKTC's Premises but HK Telecom is responsible for reimbursing HKTC the outgoings on a periodic basis. HKTC is also required to pay the amount of any income or profit received or to be received by HKTC to HK Telecom in respect of HKTC's Premises. Accordingly, the licence fees paid by the Media Group are passed on by HKTC to HK Telecom pursuant to the aforesaid arrangement. In effect, therefore, these licensing arrangements are akin to direct arrangements between HK Telecom and the Media Group.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Media Group to the HKT Limited Group

(5) Service packaging arrangements

On December 27, 2013, HK Telecom and PCCW Media entered into a service packaging agreement. The agreement comprises two aspects:

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

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

(6) The provision of marketing and sales services

On December 27, 2013, HK Telecom and PCCW Media entered into a marketing and sales services agreement. This agreement represents the reciprocal arrangement to that provided for in the agreement described in paragraph (2) above. By this agreement, PCCW Media agrees to procure that relevant members of the Media Group will market the products and services of the HKT Limited Group.

(7) Content provision arrangements

On December 27, 2013, HK Telecom and PCCW Media entered into a content services agreement, pursuant to which PCCW Media has a first right of supply and agreed to supply, procure to supply or provide content management and production support services to the HKT Limited Group for distribution through its eye and mobile platforms.

(8) Directories publishing arrangements

On December 27, 2013, PCCW Media and HK Telecom entered into a directories publishing agreement. As the overall operator of the directories businesses, the Media Group has been granted an exclusive right and licence, amongst other things, to produce and publish the White Pages Business directory and the Fax directory in print and electronic format. The Media Group charges the HKT Limited Group on a cost basis, based on the number of directories printed, the number of delivery locations requested and the development and maintenance of electronic directories.

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

On December 27, 2013, HK Telecom and PCCW Media entered into an agreement pursuant to which the HKT Limited Group pays the Media Group a monthly charge for the provision of 'user access' to certain services that are capable of being provided via the Media Group's set-top-boxes to customers subscribing for such services from the HKT Limited Group. The Media Group charges a market rate for such user-access rights.

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

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

On December 27, 2013, HK Telecom and PCCW Solutions Limited ("PCCW Solutions"), an indirect wholly-owned subsidiary of PCCW, entered into a managed wavelength service agreement whereby HK Telecom has agreed to provide certain connectivity services to PCCW Solutions, linking the Solutions Group's data centre(s) in Hong Kong and certain designated sites based on an agreed bandwidth capacity and in accordance with other agreed services levels.

On December 27, 2013, HK Telecom and PCCW Solutions also entered into a telecommunications and other miscellaneous services agreement whereby HK Telecom and its specified affiliates in the HKT Limited Group have agreed to provide certain agreed telecommunications and related services to the Solutions Group on normal commercial terms.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

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

(11) **Licensed access to floor space**

On December 27, 2013, PCCW Solutions has been afforded certain limited access rights to floor space for it and members of the Solutions Group at a number of HKTC's Premises. Pursuant to a licence agreement signed between HK Telecom and HKTC, HKTC granted to HK Telecom a licence to, among other things, install, store, operate and maintain equipment, machinery, chattels and installations at HKTC's Premises. HKTC continues to meet and defray all costs, expenses and outgoings of HKTC's Premises but HK Telecom is responsible for reimbursing HKTC the outgoings on a periodic basis. HKTC is also required to pay the amount of any income or profit received or to be received by HKTC to HK Telecom in respect of HKTC's Premises. Accordingly, the licence fees paid by the Solutions Group are passed on by HKTC to HK Telecom pursuant to the aforesaid arrangement. In effect, therefore, these licensing arrangements are akin to direct arrangements between HK Telecom and the Solutions Group.

Services supplied by the Solutions Group to the HKT Limited Group

(12) **Solutions services**

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

(a) Data Centre and Managed Services ("DCMS")

Pursuant to a bureau services agreement dated December 27, 2013 between PCCW Solutions and HK Telecom, PCCW Solutions provides certain bureau services to HK Telecom and its designated affiliates. These services include help desk services, problem management, change management, system and database support, information technology security services, data centre services, backup management, service level management, disaster recovery and technical platform services.

(b) Information Technology Systems Integration ("ITSI")

Pursuant to two agreements dated December 27, 2013 each between PCCW Solutions and HK Telecom, PCCW Solutions provides the following services to HK Telecom and its designated affiliates:

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

(c) Business Process and Logistics Operation ("BPLO")

Pursuant to an agreement dated December 27, 2013 between Power Logistics Limited ("Power Logistics"), a company in the Solutions Group, and HK Telecom, Power Logistics provides a range of different business processing, order fulfillment and logistical services to the HKT Limited Group. These services include warehouse and stock management, logistics services, transportation services, printing and lettershopping services, delivery, mass distribution, document imaging and data entry services.

(13) **Sub-contracting agreement**

On December 27, 2013, PCCW (Macau), Limitada ("PCCW Macau"), a company within the HKT Limited Group, and PCCW-HKT Technical Services Limited ("TSL"), an indirect wholly-owned subsidiary of PCCW, entered into a sub-contracting agreement. PCCW Macau has contracted with various third parties for the provision of solutions services with various operators in Macau such as information technology related systems within hotels and casinos. Rather than performing the work itself, PCCW Macau has sub-contracted the work to TSL. Accordingly, the work is carried out by TSL and all fees received in respect of the work are passed on by PCCW Macau to TSL after PCCW Macau has deducted sub-contracting fees.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

(14) **The provision of corporate shared services**

On December 27, 2013, HKT Services Limited ("HKT Services"), a company within the HKT Limited Group, and PCCW Services Limited ("PCCW Services"), a direct wholly-owned subsidiary of PCCW, entered into a corporate shared services agreement, pursuant to which HKT Services and its affiliates have agreed to provide certain members of the PCCW Group a range of corporate support services that are integral to the operation of both groups, including managerial support. The charges for these services are actual direct and indirect cost incurred in the supply and procuring of the supply of the services, including overheads, human and/or other resources and/or units and other deliverables.

(15) **The provision of marketing and promotion services**

On December 27, 2013, HK Telecom and PCCW-HKT Limited ("HKTL"), an indirect wholly-owned subsidiary of PCCW, entered into a marketing and promotion services agreement, pursuant to which HK Telecom has agreed to provide publicity, promotion and branding services to HKTL, including producing "i.Shop", a magazine produced each month to advertise the products and services of the PCCW Group, and other promotional activities. The services are charged on a cost basis.

(16) **Licensing agreement (PCCW Tower)**

PCCW Services is the tenant in respect of certain spaces located at PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, which it leases from an independent third party pursuant to a lease dated October 31, 2008. The lease expired on December 31, 2014 with the subsequent extension of three years until December 31, 2017. Under and subject to the terms of the lease, PCCW Services is afforded the right to share the premises with its related companies, which include members of the HKT Limited Group. PCCW Services and HKT Services entered into an agreement dated December 27, 2013 pursuant to which HKT Services has been granted a licence to occupy certain floor spaces for office use.

(17) **Licensing of leased floor spaces (Telecom House)**

PCCW Global Limited ("PCCW Global"), an indirect wholly-owned subsidiary of the Company, is a tenant of certain spaces located at Telecom House, 3 Gloucester Road, Wanchai, Hong Kong ("Telecom House"), which are leased from Reach Networks Hong Kong Limited pursuant to a tenancy agreement dated February 28, 2011 (supplemented by two supplemental agreements dated September 9, 2011 and December 19, 2013 respectively). The tenancy agreement expires on February 27, 2016.

HK Telecom is also a tenant of certain spaces located at Telecom House, which are leased from Reach Networks Hong Kong Limited pursuant to a lease dated May 25, 2012. The lease expires on February 29, 2016.

On December 27, 2013, PCCW Media entered into an agreement with PCCW Global and HK Telecom pursuant to which PCCW Media has been granted a licence to occupy certain floor spaces at Telecom House for office use.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

The approximate aggregate values and the annual caps for each of the categories of continuing connected transactions as described in paragraphs (1) to (17) above for the financial year ended December 31, 2015 are set out below:

Agreement/Service description	Approximate aggregate values for the financial year ended December 31, 2015 HK$'000	Annual caps for the financial year ended December 31, 2015 HK$'000
Services and floor space supplied by the HKT Limited Group to the Media Group		
(1) The provision of carriage services	153,270	389,500
(2) The provision of marketing and sales services	183,641	228,600
(3) The provision of internal (specialist telecom) services	21,345	22,900
(4) Licensed access to floor space	1,443	5,200
Services supplied by the Media Group to the HKT Limited Group		
(5) Service packaging arrangements	634,354	634,500
(6) The provision of marketing and sales services	24,192	24,300
(7) Content provision arrangements	366,504	374,500
(8) Directories publishing arrangements	–	40
(9) Pay TV set-top-box access agreement	218	1,100
Services and floor space supplied by the HKT Limited Group to the Solutions Group		
(10) Provision of managed services and other telecommunications related services	70,200	344,000
(11) Licensed access to floor space	10,467	14,800
Services supplied by the Solutions Group to the HKT Limited Group		
(12) (a) DCMS – bureau services	398,000	398,300
(b) ITSI – application management services	90,215	90,240
ITSI – system development services	57,880	57,910
ITSI Total	148,095	148,150
(c) BPLO – business process, order fulfillment & logistics services	161,400	162,900
Solutions services Total	707,495	709,350
(13) Contracted service cost from PCCW Macau to TSL	92,600	150,000
Sub-contracting fees from TSL to PCCW Macau	1,800	7,500
(14) The provision of corporate shared services	125,291	129,800
(15) The provision of marketing and promotion services	28,500	86,600
(16) Licensing agreement (PCCW Tower)	141,973	173,000
(17) Licensing of leased floor spaces (Telecom House)	16,000	19,900

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the continuing connected transactions described in paragraphs (1) to (17) above entered into between the HKT Limited Group and the PCCW Group for the year ended December 31, 2015 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the external auditor's letter has been provided by the Company and the Trustee-Manager jointly to the Stock Exchange.

The Company Board and the Trustee-Manager Board, including the independent non-executive Directors, have reviewed and confirmed that the continuing connected transactions described in paragraphs (1) to (17) above were entered into:

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

(ii) either on normal commercial terms or on terms no less favourable to the HKT Limited 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 holders of the Share Stapled Units as a whole.

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

RELATED PARTY TRANSACTIONS

The significant related party transactions which were undertaken in the normal course of business are set out in note 6 to the HKT Trust and HKT Limited consolidated financial statements and in note 4 to the Trustee-Manager's financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "**Continuing Connected Transactions**") under the Listing Rules, these transactions are exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's amended and restated articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PUBLIC FLOAT

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

AUDITOR

The HKT Trust and HKT Limited consolidated financial statements for the financial year ended December 31, 2015 and the financial statements of the Trustee-Manager for the financial year ended December 31, 2015 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the HKT Trust, the Company and the Trustee-Manager is to be proposed at the forthcoming AGM.

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

Grace M.Y. Lee
Group General Counsel and Company Secretary
Hong Kong, February 25, 2016

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

We have audited the consolidated financial statements of HKT Trust, HKT Limited (the "Company") and its subsidiaries (together the "Group") and of HKT Limited and its subsidiaries (the "HKT Limited Group") set out on pages 70 to 167 (together referred to as the "HKT Trust and HKT Limited consolidated financial statements"). As explained in note 1 to the HKT Trust and HKT Limited consolidated financial statements, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together. The HKT Trust and HKT Limited consolidated financial statements together comprise the consolidated statement of financial position of the Group and of the HKT Limited Group as at December 31, 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group and of the HKT Limited Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility For The HKT Trust And HKT Limited Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the HKT Trust and HKT Limited consolidated financial statements give a true and fair view of the financial position of the Group and of the HKT Limited Group as at December 31, 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 25, 2016

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

CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2015

In HK$ million	Note(s)	2014	**2015**
Revenue	7 & 8	28,823	**34,729**
Cost of sales		(12,053)	**(15,539)**
General and administrative expenses		(12,416)	**(13,287)**
Other gains, net	9	99	**18**
Finance costs, net	11	(1,124)	**(1,310)**
Share of results of an associate		(35)	**(27)**
Share of results of joint ventures		6	**2**
Profit before income tax	10	3,300	**4,586**
Income tax	13(a)	(242)	**(600)**
Profit for the year		3,058	**3,986**
Attributable to:			
Holders of Share Stapled Units/shares of the Company		2,991	**3,949**
Non-controlling interests		67	**37**
Profit for the year		3,058	**3,986**
Earnings per Share Stapled Unit/share of the Company			
Basic	15	42.20 cents	**52.21 cents**
Diluted	15	42.19 cents	**52.17 cents**

The notes on pages 77 to 167 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

For the year ended December 31, 2015

In HK$ million	Note	2014	**2015**
Profit for the year		3,058	**3,986**
Other comprehensive income			
Items that may be reclassified subsequently to consolidated income statement:			
Translation exchange differences:			
– exchange differences on translating foreign operations		(150)	**(109)**
– exchange differences on translating foreign operations transferred to consolidated income statement upon disposal		(79)	**–**
Available-for-sale financial assets:			
– changes in fair value	22	(110)	**(54)**
Cash flow hedges:			
– effective portion of changes in fair value		(18)	**(263)**
– transfer from equity to consolidated income statement		(24)	**(77)**
Other comprehensive loss for the year		(381)	**(503)**
Total comprehensive income for the year		2,677	**3,483**
Attributable to:			
– Holders of Share Stapled Units/shares of the Company		2,610	**3,446**
– Non-controlling interests		67	**37**
Total comprehensive income for the year		2,677	**3,483**

The notes on pages 77 to 167 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

For the year ended December 31, 2015

In HK$ million	Note	2014 Attributable to holders of Share Stapled Units/shares of the Company	Non-controlling interests	Total equity
At January 1, 2014		30,623	182	30,805
Comprehensive income				
Profit for the year		2,991	67	3,058
Other comprehensive loss				
Items that may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
– exchange differences on translating foreign operations		(150)	–	(150)
– exchange differences on translating foreign operations transferred to consolidated income statement upon disposal		(79)	–	(79)
Available-for-sale financial assets:				
– changes in fair value		(110)	–	(110)
Cash flow hedges:				
– effective portion of changes in fair value		(18)	–	(18)
– transfer from equity to consolidated income statement		(24)	–	(24)
Total other comprehensive loss		(381)	–	(381)
Total comprehensive income for the year		2,610	67	2,677
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes		(9)	–	(9)
Employee share-based compensation		59	–	59
Receipt of PCCW shares under the PCCW Subscription Scheme		21	–	21
Distribution/dividend paid in respect of the previous year	14	(1,553)	–	(1,553)
Interim distribution/dividend declared and paid in respect of the current year	14	(1,590)	–	(1,590)
Dividend declared and paid/payable to non-controlling shareholders of subsidiaries		–	(54)	(54)
Acquisition of a subsidiary	39(b)(i)	–	36	36
Disposal of a subsidiary	40	–	(124)	(124)
Issue of Rights Share Stapled Units	29(a)	7,771	–	7,771
Total transactions with equity holders		4,699	(142)	4,557
At December 31, 2014		37,932	107	38,039

In HK$ million	Note	2015 Attributable to holders of Share Stapled Units/shares of the Company	Non-controlling interests	Total equity
At January 1, 2015		**37,932**	**107**	**38,039**
Comprehensive income				
Profit for the year		**3,949**	**37**	**3,986**
Other comprehensive income				
Items that may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
– exchange differences on translating foreign operations		**(109)**	**–**	**(109)**
Available-for-sale financial assets:				
– changes in fair value		**(54)**	**–**	**(54)**
Cash flow hedges:				
– effective portion of changes in fair value		**(263)**	**–**	**(263)**
– transfer from equity to consolidated income statement		**(77)**	**–**	**(77)**
Total other comprehensive loss		**(503)**	**–**	**(503)**
Total comprehensive income for the year		**3,446**	**37**	**3,483**
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes		**(93)**	**–**	**(93)**
Employee share-based compensation		**48**	**–**	**48**
Distribution/dividend paid in respect of the previous year	14	**(1,764)**	**–**	**(1,764)**
Interim distribution/dividend declared and paid in respect of the current year	14	**(1,953)**	**–**	**(1,953)**
Dividend declared and paid/payable to non-controlling shareholders of subsidiaries		**–**	**(31)**	**(31)**
Contribution from a non-controlling shareholder		**–**	**6**	**6**
Total transactions with equity holders		**(3,762)**	**(25)**	**(3,787)**
At December 31, 2015		**37,616**	**119**	**37,735**

The notes on pages 77 to 167 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF HKT TRUST AND OF HKT LIMITED

As at December 31, 2015

In HK$ million	Note	2014	**2015**
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	15,489	**16,674**
Interests in leasehold land	17	278	**265**
Goodwill	18	49,655	**49,817**
Intangible assets	19	10,307	**9,314**
Interest in an associate	20	171	**67**
Interests in joint ventures	21	550	**554**
Available-for-sale financial assets	22	61	**7**
Financial assets at fair value through profit or loss	23	21	**11**
Deferred income tax assets	31	371	**231**
Other non-current assets		639	**630**
		77,542	**77,570**
Current assets			
Prepayments, deposits and other current assets		4,006	**4,462**
Inventories	25(a)	621	**598**
Trade receivables, net	25(b)	3,875	**3,422**
Amounts due from related companies	6(a)	76	**73**
Derivative financial instruments	27	49	**–**
Financial assets at fair value through profit or loss	23	18	**14**
Restricted cash	25(c)	–	**10**
Cash and cash equivalents	33(d)	3,613	**3,768**
		12,258	**12,347**
Current liabilities			
Short-term borrowings	25(e)	3,877	**3,879**
Trade payables	25(d)	1,979	**2,194**
Accruals and other payables		5,023	**4,900**
Carrier licence fee liabilities	32	433	**452**
Amount due to a related company	6(a)	94	**72**
Amounts due to fellow subsidiaries	6(a)	278	**353**
Advances from customers		1,997	**2,066**
Current income tax liabilities		734	**862**
		14,415	**14,778**

In HK$ million	Note	2014	**2015**
Non-current liabilities			
Long-term borrowings	26	32,549	**32,436**
Derivative financial instruments	27	100	**443**
Deferred income tax liabilities	31	2,591	**2,552**
Deferred income		1,033	**1,079**
Carrier licence fee liabilities	32	954	**627**
Other long-term liabilities		119	**267**
		37,346	**37,404**
Net assets		38,039	**37,735**
CAPITAL AND RESERVES			
Share capital	29	8	**8**
Reserves	30	37,924	**37,608**
Equity attributable to holders of Share Stapled Units/shares of the Company		37,932	**37,616**
Non-controlling interests	24(b)	107	**119**
Total equity		38,039	**37,735**

Approved and authorized for issue by the boards of directors of HKT Management Limited and HKT Limited (collectively, the "Boards") on February 25, 2016 and signed on behalf of the Boards by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 77 to 167 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

For the year ended December 31, 2015

In HK$ million	Note	2014	**2015**
NET CASH GENERATED FROM OPERATING ACTIVITIES	33(a)	9,569	**11,369**
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		5	**6**
Purchases of property, plant and equipment		(2,510)	**(3,037)**
Proceeds from disposal of a subsidiary, net	40	20	**–**
Purchases of intangible assets		(3,219)	**(3,760)**
Net outflow of cash and cash equivalents in respect of business combinations	33(b)	(18,769)	**(193)**
Settlement of contingent consideration upon business combination		–	**(77)**
Return of investment from a joint venture		11	**–**
Loans to an associate		(81)	**(49)**
Repayment of loan from an associate		25	**22**
Loan to a joint venture		(68)	**(127)**
NET CASH USED IN INVESTING ACTIVITIES		(24,586)	**(7,215)**
FINANCING ACTIVITIES			
New borrowings raised		51,719	**18,045**
Interest paid		(821)	**(913)**
Repayments of borrowings		(39,810)	**(18,173)**
Movement in amount due to fellow subsidiaries		878	**776**
Contribution from non-controlling shareholders of a subsidiary		–	**6**
Distributions/dividends paid to holders of Share Stapled Units/shareholders of the Company		(3,141)	**(3,713)**
Dividend paid to non-controlling shareholders of subsidiaries		(91)	**(31)**
Proceeds from Rights Issue, net of issuance expenses paid	29(a)	7,807	**–**
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		16,541	**(4,003)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,524	**151**
Exchange differences		(45)	**4**
CASH AND CASH EQUIVALENTS			
Beginning of year		2,134	**3,613**
End of year	33(d)	3,613	**3,768**

The notes on pages 77 to 167 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

1 BASIS OF PRESENTATION

In accordance with the Trust Deed (as defined below), HKT Trust (the "HKT Trust") and HKT Limited are each required to prepare their own sets of financial statements on a consolidated basis. The HKT Trust consolidated financial statements for the year ended December 31, 2015 comprise the consolidated financial statements of the HKT Trust, HKT Limited (or the "Company") and its subsidiaries (together the "Group"), and the Group's interests in an associate and joint ventures. The HKT Limited consolidated financial statements for the year ended December 31, 2015 comprise the consolidated financial statements of HKT Limited and its subsidiaries (together the "HKT Limited Group") and the HKT Limited Group's interests in an associate and joint ventures, and the Company's statement of financial position.

The HKT Trust controls HKT Limited and the sole activity of the HKT Trust during the year ended December 31, 2015 was investing in HKT Limited. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of capital of HKT Limited. The directors of the Trustee-Manager (as defined below) and the directors of the Company believe therefore that it is clearer to present the consolidated financial statements of the HKT Trust and the HKT Limited together. The consolidated financial statements of the HKT Trust and the consolidated financial statements of HKT Limited are presented together to the extent they are identical and are hereinafter referred as the "HKT Trust and HKT Limited consolidated financial statements".

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity, consolidated statements of cash flows, significant accounting policies and the related explanatory information are common to the HKT Trust and the Company. The HKT Limited consolidated financial statements also include the stand-alone statements of financial position of HKT Limited as shown in note 5, and the relevant explanatory information in notes 24 and 29 where information specific to the Company are disclosed separately.

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

2 GENERAL INFORMATION

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

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

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

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

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The HKT Trust and HKT Limited consolidated financial statements have been prepared in accordance with all applicable 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. A summary of the principal accounting policies adopted by the Groups is set out below.

b. Basis of preparation of the financial statements

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2015, but have no material effect on the Groups' results and financial position for the current and prior accounting periods.

– HKAS 19 (2011) (Amendment), 'Defined Benefit Plans: Employee Contributions'.
– Annual Improvements to 2010-2012 Cycle published in January 2014 by HKICPA.
– Annual Improvements to 2011-2013 Cycle published in January 2014 by HKICPA.

The Groups have not adopted any new or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 41.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

The consolidated financial statements for the year ended December 31, 2015 comprise the financial statements of the Company and its subsidiaries, and the Groups' 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:

– financial assets at fair value through profit or loss (see note 3(k)(i));
– available-for-sale financial assets (see note 3(k)(ii)); and
– derivative financial instruments (see note 3(m)).

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

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

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

c. Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Groups. Control exists when the Groups are exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Groups. 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. 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 Groups recognize 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 3(i)). 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.

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

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

Adjustments have been made to the financial statements of subsidiaries when necessary to align their accounting policies to ensure consistency with the 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 HKT Trust and HKT Limited consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains.

In the Company's statements of financial position, interests in subsidiaries are stated at cost less impairment losses (see note 3(l)(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 in which the Groups have significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

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

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

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

d. Associates *(continued)*

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

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

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

e. Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements as of January 1, 2012. A joint arrangement is an entity which operates under a contractual arrangement between the Groups and other parties, where the contractual arrangement establishes that the Groups and one or more of the other parties share joint control over the economic activity of the entity. Under HKFRS 11, joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

The Groups classified joint arrangements as joint ventures whereby the Group has rights to the net assets of the joint arrangement.

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

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

Unrealized profits and losses resulting from transactions between the Groups and their joint ventures are eliminated to the extent of the Groups' interest in the joint ventures, 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.

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

f. Gaining or losing control

When the Groups cease to have control any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in investor profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as 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 Groups 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.

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

g. Property, plant and equipment

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

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

- other items of plant and equipment.

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

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

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

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

Buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 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.

h. Leased assets

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

i. Classification of assets leased to the Groups

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

ii. Assets leased out under operating leases

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

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

h. Leased assets *(continued)*

iii. Operating lease charges

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

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

i. Goodwill

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

Goodwill is stated in the consolidated statements 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 3(l)(ii)). In respect of the associate and joint ventures, the carrying amount of goodwill is included in the carrying amount of the interests in an associate and joint ventures.

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

j. Intangible assets (other than goodwill)

i. Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalized if it is probable that future economic benefits will flow from the customers to the Groups and such costs can be measured reliably. Capitalized customer acquisition costs are amortized on a straight-line basis over the minimum enforceable contractual periods. 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 consolidated 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 Groups have the right to return a licence and expect to do so, the asset and the related obligation recorded reflect the expected period that the licence will be held. Amortization is provided on a straight-line basis over the estimated useful life of the licence, 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 consolidated income statement in the period in which it is incurred using the effective interest method.

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

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

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

iii. Software

Costs incurred to acquire, develop or enhance scientific or technical knowledge, design and implementation of new process or systems, licences, intellectual property, market knowledge and trademarks are capitalized as "intangible assets" if it is identifiable and the entity 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 Groups have power to obtain future economic benefits flowing from the underlying source.

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

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

iv. Other intangible assets

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

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

Trademarks	20 years
Customer base	1 to 10 years
Programme costs	Over the terms of the contract period

k. Investments in equity securities

The Groups classify its investments in equity securities, other than interests in subsidiaries and interests in an associate and joint ventures, as (i) financial assets at fair value through profit or loss, or (ii) available-for-sale financial assets.

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

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 consolidated income statement as incurred.

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

k. Investments in equity securities *(continued)*

i. Financial assets at fair value through profit or loss *(continued)*

At the end of each reporting period, the fair value is re-measured based on their current bid prices in an active market, with any unrealized holding gains or losses arising from the changes in fair value being recognized in the consolidated income statement in the period in which they arise. The net gain or loss recognized in the consolidated 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 3(u)(v) and 3(u)(vii) respectively. Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows.

ii. 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 as financial assets at fair value through profit and loss, held-to-maturity investments and loans and receivables. They are included in non-current assets unless the Groups intend to dispose of the investment within 12 months from the 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 3(l)(i)) and, in the case of monetary items, foreign exchange gains and losses which are recognized directly in the consolidated income statement. Dividend income from these investments is recognized in the consolidated income statement in accordance with the policy set out in note 3(u)(vii). When the investments are derecognized or impaired (see note 3(l)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the consolidated income statement.

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

l. Impairment of assets

i. Impairment of investments in equity securities and other receivables

Investments in equity securities (other than interests in subsidiaries and interests in an associate and joint ventures: (see note 3(l)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at 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 Groups about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization; or

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

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

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

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

l. Impairment of assets *(continued)*

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

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

– For available-for-sale financial assets, when there is an impairment, the cumulative loss, if any, that had been recognized in other comprehensive income is reclassified from equity in the consolidated income statement as a reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in the consolidated income statement.

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

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

ii. Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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;

– intangible assets;

– interests in an associate and joint ventures;

– 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.

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

l. Impairment of assets *(continued)*

ii. Impairment of other assets *(continued)*

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

– Reversals of impairment losses

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

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

iii. Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Groups are 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 3(l)(i) and (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.

m. Derivative financial instruments

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

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

n. Hedging

i. Fair value hedge

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

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

n. Hedging *(continued)*

i. Fair value hedge *(continued)*

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

ii. Cash flow hedge

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

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

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

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

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

o. Inventories

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

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

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

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

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

p. Trade and other receivables

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

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

q. Cash and cash equivalents

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

r. Trade and other payables

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

s. Borrowings

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

t. Provisions and contingent liabilities

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

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

u. Revenue recognition

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

i. Telecommunications and other services

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

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

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

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

ii. Sales of goods

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

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

u. Revenue recognition *(continued)*

iii. Rental income from operating leases

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

iv. Contract revenue

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable.

v. Interest income

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

vi. Commission income

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

vii. Dividend income

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

v. Borrowing costs

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

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

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

w. Income tax

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

ii. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to income tax payable in respect of previous year.

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

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

w. Income tax *(continued)*

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 Groups have the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:

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

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

  - the same taxable entity; or

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

x. Employee benefits

i. Short-term employee benefits

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

x. Employee benefits *(continued)*

ii. Retirement benefits

The Groups operate defined contribution retirement schemes (including the Mandatory Provident Fund) for its employees, the assets of which are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant companies in the Groups.

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

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

iii. Share-based payments

PCCW and the Groups operate share option schemes where employees of the Groups (and including directors) are granted options to acquire shares of PCCW and Share Stapled Units at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognized as staff costs in the consolidated income statement with a corresponding increase in 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 consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the 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 premium account) or the share options expire (when it is released directly to retained profit).

The boards of directors of the Trustee-Manager and the Company may also grant Share Stapled Units to employees at nil consideration under the Company's Share Stapled Units award schemes, under which the awarded shares are either newly issued at issue price (the "HKT Share Stapled Units Subscription Scheme") or are purchased from the open market (the "HKT Share Stapled Units Purchase Scheme"). The cost of Share Stapled Units 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 Share Stapled Units under both schemes is recognized as staff costs in the consolidated income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the awarded Share Stapled Units is measured by the quoted market price of the shares at grant date and is charged to the consolidated income statement over the respective vesting period. During the vesting period, the number of awarded Share Stapled Units that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited to the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded Share Stapled Units that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded Share Stapled Units recognized in equity as treasury stock is transferred to the employee share-based compensation reserve.

Share Stapled Units granted to employees of the Groups by the principal holder of Share Stapled Units are accounted for in accordance with the same policy for the awarded Share Stapled Units under the Share Stapled Units award schemes as described above. The fair value of the Share Stapled Units granted is measured by the quoted market price of the Share Stapled Units at grant date and is charged to the consolidated income statement over the respective vesting period.

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

x. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

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

Awards under the PCCW Purchase Scheme and the PCCW Subscription Scheme, are accounted for as cash-settle share-based payments. The fair value of the awarded PCCW shares represents the quoted market price of PCCW shares purchased from the open market under the PCCW Purchase Scheme and the issue price of PCCW shares under the PCCW Subscription Scheme are recognized as financial assets at fair value through profit and loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW shares are recognized as staff costs in the income statement over the respective vesting period with a corresponding obligation being recognized. During the vesting period, the number of awarded PCCW shares that are 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 obligation. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded PCCW shares that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW shares recognized in the financial assets at fair value through profit and loss is offset with the obligation.

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

iv. Termination benefits

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

y. Translation of foreign currencies

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

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

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

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

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

y. Translation of foreign currencies *(continued)*

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

z. Related parties

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

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

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

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

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

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

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

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

aa. Segment reporting

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

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

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

bb. Distribution/dividend to the holders of Share Stapled Units/shares of the Company

Distribution/dividend to the holders of Share Stapled Units/shares of the Company are recognized as a liability in the HKT Trust and HKT Limited consolidated financial statements and the Company's financial statement in the period in which the distributions/dividends are approved by the Boards or holders of Share Stapled Units/shares of the Company, where appropriate.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty

The Groups make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 18 and 35 contain information about the assumptions and the risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are discussed below:

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

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

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

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

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

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

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

– property, plant and equipment;

– interests in leasehold land;

– intangible assets;

– interests in an associate and joint ventures;

– goodwill; and

– interests in subsidiaries (at Company level).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

ii. Impairment of assets (other than investments in equity securities and other receivables) *(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 consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

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

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

iii. Revenue recognition

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

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

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

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

iv. Deferred income tax

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

v. Current income tax

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

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

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

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

During the year ended December 31, 2014, the Groups performed a review to reassess the useful lives of certain exchange equipment and transmission plant of the Groups based on the expectations of the Groups' operational management and technological trends. The reassessment has resulted in a change in the estimated useful lives of these assets. The Groups consider this to be a change in accounting estimate and has therefore accounted for the change prospectively from July 1, 2014. As a result of this change in accounting estimate, the Groups' profit for the year ended December 31, 2014 decreased by HK$770 million and the net assets as at December 31, 2014 decreased by HK$770 million.

During the year ended December 31, 2015, the Groups also performed a review to reassess the useful life of certain customer base. The reassessment has resulted in a change in accounting estimate. As a result of this change in accounting estimate, the Groups' profit for the year ended December 31, 2015 decreased by HK$388 million and the net assets as at December 31, 2015 decreased by HK$388 million.

vii. Recognition of intangible asset – carrier licences

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

viii. Consolidation of entities in which the Groups hold 50% or less than 50% equity interest

The directors of the Groups made significant judgements that Yinghuan Network Technology (Shanghai) Co., Ltd. was controlled by the Groups, even though the Groups held 50% equity interest of the subsidiary as the Groups owned more than one half of the voting rights in the board of directors.

The directors of the Groups made significant judgements that Unihub China Information Technology Company Limited ("Zhong Ying JV") was controlled by the Groups before disposal in December 2014 (note 40), even though the Groups held less than 50% effective equity interest of the subsidiary as the Groups owned more than one half of the shareholders' voting rights and/or more than one half of the voting rights in the board of directors during the year before disposal.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

ix. Classification of joint arrangements

The Groups have 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 Groups.

5 COMPANY STATEMENT OF FINANCIAL POSITION

In HK$ million	Note	2014	**2015**
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	24(a)	27,905	**27,905**
		27,905	**27,905**
Current assets			
Prepayments, deposits and other current assets		7	**5**
Amount due from a subsidiary		7,437	**7,400**
Cash and cash equivalents		102	**25**
		7,546	**7,430**
Current liabilities			
Accruals and other payables		39	**29**
Amounts due to subsidiaries		224	**91**
Current income tax liabilities		–	**1**
		263	**121**
Net assets		35,188	**35,214**
CAPITAL AND RESERVES			
Share capital	29	8	**8**
Reserves	29	35,180	**35,206**
Total equity		35,188	**35,214**

Approved and authorized for issue by the Boards on February 25, 2016 and signed on behalf of the Boards by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

6 RELATED PARTY TRANSACTIONS

PCCW is the controlling holder of Share Stapled Units. CAS Holding No. 1 Limited and PCCW are the immediate and ultimate holding companies of the Company respectively.

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

In HK$ million	2014	**2015**
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder of PCCW	187	**80**
Telecommunications service fees paid or payable to a substantial shareholder of PCCW	121	**168**
Telecommunications service fees and interest income received or receivable from joint ventures	68	**59**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to joint ventures	293	**266**
Consultancy service charges and interest income received or receivable from an associate	20	**15**
Telecommunications service fees, IT and logistics charges, management fee and other recharge costs received or receivable from fellow subsidiaries	642	**676**
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy fee, management fee and other recharged costs paid or payable to fellow subsidiaries	1,642	**1,869**
Rent and facilities management charges paid or payable to fellow subsidiaries	129	**144**

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

a. Balances with related companies and fellow subsidiaries

The net amounts due to fellow subsidiaries as at December 31, 2014 and 2015 are unsecured, non-interest bearing and have no fixed repayment terms.

The net amounts due from/to related companies as at December 31, 2014 and 2015 are unsecured, non-interest bearing and have no fixed repayment terms.

b. Details of key management compensation

In HK$ million	2014	**2015**
Salaries and other short-term employee benefits	72	**67**
Post-employment benefits	2	**2**
	74	**69**

7 REVENUE

In HK$ million	2014	**2015**
Telecommunications and other services revenue	25,003	**27,730**
Sales of goods	3,775	**6,951**
Rental income	45	**48**
	28,823	**34,729**

8 SEGMENT INFORMATION

The CODM is the Groups' senior executive management. The CODM reviews the Groups' 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 from the product perspective. From a product perspective, management assesses the performance of the following segments:

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

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

– Other businesses of the Groups ("Other Businesses") primarily comprised corporate support functions, Keycom plc, a wholly-owned subsidiary acquired during the year ended December 31, 2015 which provides the design, development and delivery of communications and multimedia services via high-speed connectivity in the United Kingdom, and Zhong Ying JV, which provides network integration and related services to telecommunications operators in the PRC. In December 2014, the Groups completed the disposal of its entire equity interest in Zhong Ying JV.

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

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

8 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	2014				
	TSS	Mobile	Other Businesses	Eliminations	Total
Revenue					
External revenue	19,309	8,950	564	–	28,823
Inter-segment revenue	604	–	–	(604)	–
Total revenue	19,913	8,950	564	(604)	28,823
Results					
EBITDA	7,362	3,147	(267)	–	10,242
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	1,487	959	83	–	2,529

In HK$ million	**2015**				
	TSS	**Mobile**	**Other Businesses**	**Eliminations**	**Total**
Revenue					
External revenue	**20,205**	**14,317**	**207**	**–**	**34,729**
Inter-segment revenue	**672**	**–**	**–**	**(672)**	**–**
Total revenue	**20,877**	**14,317**	**207**	**(672)**	**34,729**
Results					
EBITDA	**7,507**	**5,030**	**(437)**	**–**	**12,100**
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	**1,385**	**1,516**	**153**	**–**	**3,054**

8 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	2014	**2015**
Total segment EBITDA	10,242	**12,100**
(Loss)/gain on disposals of property, plant and equipment, net	(2)	**5**
Depreciation and amortization	(5,886)	**(6,202)**
Other gains, net	99	**18**
Finance costs, net	(1,124)	**(1,310)**
Share of results of joint ventures	6	**2**
Share of results of an associate	(35)	**(27)**
Profit before income tax	3,300	**4,586**

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

In HK$ million	2014	**2015**
Hong Kong	22,265	**27,212**
The PRC (excluding Hong Kong) and Taiwan, China	1,436	**1,197**
Others	5,122	**6,320**
	28,823	**34,729**

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK$74,758 million as at December 31, 2015 (2014: HK$74,698 million). The total of these non-current assets located in other countries are HK$2,461 million as at December 31, 2015 (2014: HK$2,391 million).

9 OTHER GAINS, NET

In HK$ million	2014	**2015**
Net gain on cash flow hedging instruments transferred from equity	22	**67**
Net gain on fair value hedging instruments	47	**48**
Impairment loss on an interest in an associate	(52)	**(95)**
Gain on disposal of interest in a subsidiary *(note 40)*	55	**–**
Others	27	**(2)**
	99	**18**

10 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	2014	**2015**
Salaries, bonuses and other benefits	2,211	**2,330**
Share-based compensation expenses	78	**60**
Retirement costs for staff under defined contribution retirement schemes	139	**275**
	2,428	**2,665**

b. Other items

In HK$ million	2014	**2015**
Crediting:		
Gross rental income	45	**48**
Charging:		
Impairment loss for doubtful debts	164	**284**
Loss/(gain) on disposals of property, plant and equipment, net	2	**(5)**
Provision for inventory obsolescence	10	**8**
Depreciation of property, plant and equipment	3,071	**1,854**
Amortization of land lease premium	13	**13**
Amortization of intangible assets	2,802	**4,335**
Cost of inventories sold	3,645	**6,490**
Cost of sales, excluding inventories sold	8,408	**9,049**
Exchange losses, net	6	**13**
Cash flow hedges: transferred from equity	(3)	**(11)**
Remuneration to the Company's auditor		
– audit and audit related services	28	**15**
– non-audit services	1	**4**
Remuneration to other auditors		
– audit and audit related services	3	**3**
– non-audit services	–	**5**
Operating lease rental	1,395	**1,542**

11 FINANCE COSTS, NET

In HK$ million	2014	**2015**
Interest expenses	(1,078)	**(1,220)**
Notional accretion on carrier licence fee liabilities	(110)	**(114)**
Other borrowing costs	(3)	**(7)**
Cash flow hedges: transferred from equity	(1)	**(1)**
Cash flow hedges: changes in fair value	–	**(32)**
Impact of re-designation of fair value hedges	–	**(16)**
Fair value hedges: changes in fair value *(note (a))*	(4)	**–**
	(1,196)	**(1,390)**
Interest capitalized in property, plant and equipment *(note (b))*	19	**17**
Total finance costs	(1,177)	**(1,373)**
Interest income	53	**63**
Finance costs, net	(1,124)	**(1,310)**

a. This represents fair value changes of derivative financial instruments on fair value hedges. During the year ended December 2015, there was no fair value change on derivative financial instruments on fair value hedges (2014: gain of HK$305 million) and no fair value adjustment of borrowings attributable to interest rate risk (2014: debit of HK$309 million).

b. The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.41% to 3.95% for the year ended December 31, 2015 (2014: from 3.63% to 3.77%).

12 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

In HK$ million	2014							
	Directors' fees	Salaries	Allowances	Benefits in kind[1]	Bonuses[2]	Retirement scheme contributions	Share-based[3] compensation	Total
Executive directors								
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–
Alexander Anthony Arena	–	9.87[4]	9.87	0.03	12.24	1.48	8.24	41.73
Hui Hon Hing, Susanna	–	3.50	2.01	0.02	3.45	0.42	4.24	13.64
Non-executive directors								
Srinivas Bangalore Gangaiah[5]	–	–	–	–	–	–	–	–
Peter Anthony Allen	–	–	–	–	–	–	–	–
Chung Cho Yee, Mico	0.22	–	–	–	–	–	–	0.22
Lu Yimin	0.22[6]	–	–	–	–	–	–	0.22
Li Fushen	0.22[7]	–	–	–	–	–	–	0.22
Independent non-executive directors								
Sir Rogerio (Roger) Hyndman Lobo[8]	0.12[9]	–	–	–	–	–	–	0.12
Professor Chang Hsin Kang	0.22	–	–	–	–	–	–	0.22
The Hon Raymond George Hardenbergh Seitz	0.33[10]	–	0.53	–	–	–	–	0.86
Sunil Varma	0.33[11]	–	–	–	–	–	–	0.33
Aman Mehta[12]	0.21[13]	–	–	–	–	–	–	0.21
	1.87	13.37	12.41	0.05	15.69	1.90	12.48	57.77

Notes:

1. Benefits in kind include medical insurance premium and club membership fees, where applicable.
2. Bonus amounts shown above represent the portion of 2013 bonuses that were paid in 2014. It was determined by reference to the Group and the individual performance during the year ended December 31, 2013.
3. 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.
4. Excludes remuneration for duties performed for related companies.
5. Appointed as a non-executive director with effect from August 5, 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.
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.
8. Retired as an independent non-executive director with effect from May 8, 2014.
9. Includes HK$38,748 fee as Chairman of Nomination Committee.
10. Includes HK$109,200 fee as Chairman of Remuneration Committee.
11. Includes HK$109,200 fee as Chairman of Audit Committee.
12. Appointed as an independent non-executive director with effect from May 8, 2014.
13. Includes HK$70,756 fee as Chairman of Nomination Committee.
14. Certain comparative information of directors' emoluments for the year ended December 31, 2014 previously disclosed in accordance with the predecessor Companies Ordinance have been restated in order to comply with the new scope and requirements of the Hong Kong Companies Ordinance (Cap. 622).

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

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

In HK$ million	2015							
	Directors' fees	Salaries	Allowances	Benefits in kind[1]	Bonuses[2]	Retirement scheme contributions	Share-based[3] compensation	Total
Executive directors								
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–
Alexander Anthony Arena	–	10.03[4]	10.03	0.03	17.46	1.50	13.29	52.34
Hui Hon Hing, Susanna	–	3.56	2.04	0.02	4.92	0.43	9.52	20.49
Non-executive directors								
Srinivas Bangalore Gangaiah	–	–	–	–	–	–	–	–
Peter Anthony Allen	–	–	–	–	–	–	–	–
Chung Cho Yee, Mico	0.23	–	–	–	–	–	–	0.23
Lu Yimin	0.23[5]	–	–	–	–	–	–	0.23
Li Fushen	0.23[6]	–	–	–	–	–	–	0.23
Independent non-executive directors								
Professor Chang Hsin Kang	0.23	–	–	–	–	–	–	0.23
The Hon Raymond George Hardenbergh Seitz[7]	0.12	–	0.26	–	–	–	–	0.38
Sunil Varma	0.35[8]	–	–	–	–	–	–	0.35
Aman Mehta	0.35[9]	–	–	–	–	–	–	0.35
Frances Waikwun Wong[10]	0.22[11]	–	–	–	–	–	–	0.22
	1.96	13.59	12.33	0.05	22.38	1.93	22.81	75.05

Notes:

1 Benefits in kind include medical insurance premium and club membership fees, where applicable.

2 Bonus amounts shown above represent the portion of 2014 bonuses that were paid in 2015. It was determined by reference to the Group and the individual performance during the year ended December 31, 2014.

3 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 2015 for respective directors under the share award schemes.

4 Excludes remuneration for duties performed for related companies.

5 Fee receivable as a non-executive director in 2015 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.

6 Fee receivable as a non-executive director in 2015 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.

7 Retired as an independent non-executive director with effect from May 7, 2015.

8 Includes HK$115,000 fee as Chairman of Audit Committee.

9 Includes HK$115,000 fee as Chairman of Nomination Committee.

10 Appointed as an independent non-executive director with effect from May 7, 2015.

11 Includes HK$74,829 fee as Chairwoman of Remuneration Committee with effect from May 7, 2015.

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

b. Directors' other services

No other emoluments were paid to or receivable by any director in respect of directors' other services in connection with the management of the affairs of the Company or its subsidiary undertakings during the year ended December 31, 2015 (2014: nil).

c. Directors' retirement benefits

No retirement benefits were paid to or receivable by any director during the year ended December 31, 2015 by a defined contribution retirement scheme operated by the Group in respect of services as a director of the Company and its subsidiaries (2014: nil). No other retirement benefits were paid to or receivable by any director in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertakings during the year ended December 31, 2015 (2014: nil).

d. Directors' termination benefits

No directors' emoluments, retirements benefits, payments or benefits in respect of termination of directors' services have been paid to or are receivable by the directors during the year ended December 31, 2015 (2014: nil).

e. Consideration provided to third parties for making available directors' services

No consideration was provided to or receivable by third parties for making available directors' services during the year ended December 31, 2015 (2014: nil).

f. Information about loans, quasi-loans and other dealings entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of directors

There were no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected parties during the year ended December 31, 2015 (2014: nil).

g. Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company 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 reporting period or at any time during the year ended December 31, 2015 (2014: nil).

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

h. Individuals with highest emoluments

i. Of the five individuals with the highest emoluments, two (2014: two) are directors of the Company and the Trustee-Manager whose emoluments are disclosed in note 12(a). The emoluments in respect of the three (2014: three) non-director individuals for the year ended December 31, 2015 were as follows:

In HK$ million	2014	**2015**
Salaries, allowances and benefits in kind	10.67	**10.26**
Bonuses	3.88	**2.41**
Retirement scheme contributions	1.05	**0.82**
Share-based compensation	1.21	**3.17**
	16.81	**16.66**

ii. The emoluments of the three (2014: three) non-director individuals for the year ended December 31, 2015 were within the following emolument ranges:

	Number of individuals	
	2014	**2015**
HK$5,000,001 – HK$5,500,000	1	**2**
HK$5,500,001 – HK$6,000,000	2	**–**
HK$6,000,001 – HK$6,500,000	–	**–**
HK$6,500,001 – HK$7,000,000	–	**1**
	3	**3**

13 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	2014	**2015**
Hong Kong profits tax		
– provision for current year	348	**466**
Overseas tax		
– provision for current year	47	**38**
– overprovision for prior year	(2)	**(11)**
Movement of deferred income tax *(note 31(a))*	(151)	**107**
	242	**600**

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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.

13 INCOME TAX *(CONTINUED)*

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

In HK$ million	2014	**2015**
Profit before income tax	3,300	**4,586**
Notional tax on profit before income tax, calculated at applicable tax rate	545	**757**
Effect of different tax rates of subsidiaries operating overseas	10	**5**
Income not subject to tax	(19)	**(35)**
Expenses not deductible for tax purposes	1	**20**
Tax losses not recognized	7	**28**
Overprovision in respect of prior years	(2)	**(11)**
Utilization of previously unrecognized tax losses	(305)	**(105)**
Recognition of previously unrecognized tax loss	–	**(80)**
Provision for impairment on an interest in an associate	–	**16**
Net losses of an associate and joint ventures not deductible to tax	5	**5**
Income tax expense	242	**600**

The change in the effective tax rate for the year ended December 31, 2015 comparing with 2014 was mainly due to lower utilization of previously unrecognized tax loss in 2015.

14 DISTRIBUTIONS/DIVIDENDS

In HK$ million	2014	**2015**
Interim distribution/dividend declared and paid in respect of current year of 25.79 HK cents (2014: 21 HK cents) per Share Stapled Unit/ordinary share of the Company	1,590	**1,953**
Less: Distribution/dividend for Share Stapled Units/shares held by the Company's Share Stapled Units Award Schemes	(1)	**(2)**
	1,589	**1,951**
Final distribution/dividend declared in respect of previous financial year, approved and paid during the year of 23.30 HK cents (2014: final distribution/second interim dividend of 24.21 HK cents) per Share Stapled Unit/ordinary share of the Company	1,553	**1,764**
Less: Distribution/dividend for Share Stapled Units/shares held by the Company's Share Stapled Units Award Schemes	(1)	**(2)**
	1,552	**1,762**
	3,141	**3,713**

For the year ended December 31, 2015, the Company proposed a final dividend of 28.27 HK cents per ordinary share, totaling HK$2,141 million (2014: 23.30 HK cents per ordinary share, totaling HK$1,764 million) to HKT Trust after the end of the reporting period.

For the year ended December 31, 2015, HKT Trust proposed a final distribution of 28.27 HK cents per Share Stapled Unit, totaling HK$2,141 million (2014: 23.30 HK cents per Share Stapled Unit, totaling HK$1,764 million) to holders of Share Stapled Units after the end of the reporting period.

The final distribution/dividend proposed after the end of the reporting period, referred to above, have not been recognized as liabilities as at the end of the reporting period.

15 EARNINGS PER SHARE STAPLED UNIT/SHARE OF THE COMPANY

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

	2014	2015
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	2,991	**3,949**
Number of Share Stapled Units/shares of the Company		
Weighted average number of Share Stapled Units/ordinary shares of the Company	7,094,443,832	**7,571,742,334**
Effect of Share Stapled Units held under the Company's Share Stapled Units Award Schemes	(6,135,686)	**(8,333,897)**
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of basic earnings per Shared Stapled Unit/share of the Company	7,088,308,146	**7,563,408,437**
Effect of Share Stapled Units awarded under the Company's Share Stapled Units Award Schemes	1,164,461	**6,393,272**
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of diluted earnings per Shared Stapled Unit/share of the Company	7,089,472,607	**7,569,801,709**

16 PROPERTY, PLANT AND EQUIPMENT

In HK$ million			2014			
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,074	19,261	20,071	11,488	1,453	53,347
Additions	–	557	752	469	751	2,529
Additions upon business combinations *(note 39(b))*	392	694	561	225	121	1,993
Disposal of interest in a subsidiary *(note 40)*	–	–	–	(16)	–	(16)
Transfers	–	437	484	184	(1,105)	–
Disposals	–	(401)	(21)	(62)	–	(484)
Exchange differences	–	(47)	(88)	–	–	(135)
End of year	1,466	20,501	21,759	12,288	1,220	57,234
Accumulated depreciation and impairment						
Beginning of year	570	16,178	13,390	9,101	–	39,239
Charge for the year	26	1,281	1,238	526	–	3,071
Disposal of interest in a subsidiary *(note 40)*	–	–	–	(11)	–	(11)
Disposals	–	(401)	(16)	(60)	–	(477)
Exchange differences	–	(39)	(38)	–	–	(77)
End of year	596	17,019	14,574	9,556	–	41,745
Net book value						
End of year	870	3,482	7,185	2,732	1,220	15,489
Beginning of year	504	3,083	6,681	2,387	1,453	14,108

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	2015					
	Buildings	**Exchange equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	1,466	20,501	21,759	12,288	1,220	57,234
Additions	–	399	1,542	70	1,043	3,054
Additions upon business combinations *(note 39(a))*	–	55	–	4	–	59
Transfers	–	239	478	38	(755)	–
Disposals	–	(410)	(249)	(29)	–	(688)
Exchange differences	–	(27)	(129)	(13)	–	(169)
End of year	1,466	20,757	23,401	12,358	1,508	59,490
Accumulated depreciation and impairment						
Beginning of year	596	17,019	14,574	9,556	–	41,745
Charge for the year	35	614	676	529	–	1,854
Disposals	–	(411)	(249)	(27)	–	(687)
Exchange differences	–	(21)	(56)	(19)	–	(96)
End of year	631	17,201	14,945	10,039	–	42,816
Net book value						
End of year	835	3,556	8,456	2,319	1,508	16,674
Beginning of year	870	3,482	7,185	2,732	1,220	15,489

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

17 INTERESTS IN LEASEHOLD LAND

In HK$ million	2014	**2015**
Cost		
Beginning of year and end of year	536	**536**
Accumulated amortization		
Beginning of year	245	**258**
Charge for the year	13	**13**
End of year	258	**271**
Net book value		
End of year	278	**265**
Beginning of year	291	**278**

18 GOODWILL

In HK$ million	2014	**2015**
Cost		
Beginning of year	36,044	**49,655**
Additions upon business combinations	13,627	**182**
Exchange differences	(16)	**(20)**
End of year	49,655	**49,817**

18 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill

Goodwill is allocated to the HKT Trust and the Company's CGUs identified according to operating segment as follows:

In HK$ million	2014	**2015**
TSS		
– Local telephony and data services	30,962	**30,962**
– Global	1,146	**1,136**
– Others	505	**501**
Mobile	16,816	**16,853**
Other Businesses	226	**365**
Total	49,655	**49,817**

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

The key assumptions used for value-in-use calculations in 2015 are as follows:

	2014			**2015**		
	Gross margin	Terminal growth rate	Discount rate	**Gross margin**	**Terminal growth rate**	**Discount rate**
TSS						
– Local telephony and data services	75%	1%	9%	**77%**	**1%**	**8%**
– Global	21%	3%	11%	**23%**	**3%**	**10%**
Mobile	52%	2%	11%	**46%**	**2%**	**10%**

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

There was no indication of impairment arising from review on goodwill as at October 31, 2015.

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

19 INTANGIBLE ASSETS

In HK$ million	2014						
	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost							
Beginning of year	535	1,600	2,690	5,092	681	13	10,611
Additions	–	108	2,314	–	256	161	2,839
Additions upon business combinations *(note 39(b))*	1,343	2,332	–	2,716	–	–	6,391
Write-off	–	–	(1,392)	–	–	(161)	(1,553)
Exchange differences	(8)	–	–	(7)	–	–	(15)
End of year	1,870	4,040	3,612	7,801	937	13	18,273
Accumulated amortization							
Beginning of year	124	838	1,539	4,138	67	13	6,719
Charge for the year	75	439	1,527	530	70	161	2,802
Write-off	–	–	(1,392)	–	–	(161)	(1,553)
Exchange differences	(1)	–	–	(1)	–	–	(2)
End of year	198	1,277	1,674	4,667	137	13	7,966
Net book value							
End of year	1,672	2,763	1,938	3,134	800	–	10,307
Beginning of year	411	762	1,151	954	614	–	3,892

In HK$ million	**2015**						
	Trademarks	**Carrier licences**	**Customer acquisition costs**	**Customer base**	**Software**	**Others**	**Total**
Cost							
Beginning of year	**1,870**	**4,040**	**3,612**	**7,801**	**937**	**13**	**18,273**
Additions	**1**	**117**	**2,784**	**–**	**260**	**172**	**3,334**
Additions upon business combinations *(note 39(a))*	**–**	**–**	**–**	**12**	**–**	**–**	**12**
Write-off	**–**	**–**	**(1,428)**	**(5,040)**	**–**	**(171)**	**(6,639)**
Exchange differences	**(3)**	**–**	**–**	**–**	**–**	**–**	**(3)**
End of year	**1,868**	**4,157**	**4,968**	**2,773**	**1,197**	**14**	**14,977**
Accumulated amortization							
Beginning of year	**198**	**1,277**	**1,674**	**4,667**	**137**	**13**	**7,966**
Charge for the year	**93**	**550**	**2,244**	**1,148**	**128**	**172**	**4,335**
Write-off	**–**	**–**	**(1,428)**	**(5,040)**	**–**	**(171)**	**(6,639)**
Exchange differences	**–**	**–**	**1**	**–**	**–**	**–**	**1**
End of year	**291**	**1,827**	**2,491**	**775**	**265**	**14**	**5,663**
Net book value							
End of year	**1,577**	**2,330**	**2,477**	**1,998**	**932**	**–**	**9,314**
Beginning of year	**1,672**	**2,763**	**1,938**	**3,134**	**800**	**–**	**10,307**

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

20 INTEREST IN AN ASSOCIATE

In HK$ million	2014	**2015**
Share of net assets of an associate	–	**–**
Loans due from an associate, net	223	**214**
Provision for impairment	(52)	**(147)**
	171	**67**
Investments at cost, unlisted	41	**41**

a. As at December 31, 2015, particulars of the associate of the Groups are as follows:

Company name	Principal place of business/Place of incorporation	Principal activities	Value of registered capital	Interest held by by the Company Directly	Interest held by by the Company Indirectly	Measurement method
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	–	35%	Equity

Unofficial company name

DJTCL is a strategic intent for the Groups' growth in telecommunications business in the PRC market, providing telecommunications subscription services and sales of mobile phones and accessories.

DJTCL is a private company and there is no quoted market price available for its shares.

20 INTEREST IN AN ASSOCIATE *(CONTINUED)*

b. Commitments and contingent liabilities in respect of the associate

As at December 31, 2015, the Groups' share of its associate's commitments were as follows:

In HK$ million	2014	**2015**
Operating lease commitments		
– within 1 year	6	**3**
– after 1 year but within 5 years	7	**3**

The Groups' contingent liabilities relating to its associate is disclosed in note 37. As at December 31, 2015, the Groups had no share of contingent liabilities of its associate.

c. Summarized unaudited financial information of the Groups' associate

Set out below is the summarized unaudited financial information of the associate which is accounted for using the equity method.

In HK$ million	2014	**2015**
Non-current assets	25	**3**
Current assets	97	**57**
Current liabilities	(389)	**(404)**

In HK$ million	2014	**2015**
Revenue	462	**226**
Loss after income tax and total comprehensive loss	(100)	**(77)**

The information above reflects the amounts presented in the financial statement of the associate (not the Groups' share of those amounts) adjusted for differences in accounting policies between the Groups and the associate.

d. Reconciliation of summarized financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Groups' interest in an associate.

In HK$ million	2014	**2015**
Net liabilities		
Beginning of year	(167)	**(267)**
Loss for the year	(100)	**(77)**
End of year	(267)	**(344)**
Interest in an associate	35%	**35%**
Interest in an associate	(93)	**(120)**
Goodwill	24	**24**
Loans due from an associate *(note (i))*	292	**310**
Provision for impairment	(52)	**(147)**
Carrying value	171	**67**

(i) As at December 31, 2014, loans due from an associate comprised unsecured loans totaling HK$74 million which bear interest at 4% per annum and repayable in 1 year, and certain secured loans totaling HK$218 million which bear interest at 4% per annum and repayable in 1 year.

As at December 31, 2015, loans due from an associate comprised unsecured loans totaling HK$96 million which bear interest at 4% per annum and repayable in 1 year, and certain secured loans totaling HK$214 million which bear interest at 4% per annum and repayable in 1 year.

During the year ended December 31, 2015, provision for impairment of HK$95 million (2014: HK$52 million) was included in other gains, net in the consolidated income statement. This was a result of the estimated recoverable amount being lower than its carrying amount.

During the year ended December 31, 2015, the Groups did not have any unrecognized share of losses of an associate (2014: nil). As at December 31, 2015, the accumulated share of loss of the associate unrecognized by the Groups were nil (2014: nil).

21 INTERESTS IN JOINT VENTURES

In HK$ million	2014	**2015**
Share of net assets of joint ventures	72	**70**
Loan due from a joint venture	478	**484**
	550	**554**
Investments at cost, unlisted	–	–

The loan due from a joint venture bears interests at HIBOR plus 3% per annum for the year (2014: HIBOR plus 3% per annum). The loan is unsecured and has no fixed terms of repayment.

a. As at December 31, 2015, particulars of the principal joint venture of the Groups are as follows:

Company name	Principal place of business/ Place of incorporation	Principal activities	Value 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	–	50%	Equity

GBL is a strategic partnership of the Groups, 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 are no quoted market prices available for its shares.

b. Commitments and contingent liabilities in respect of joint ventures
As at December 31, 2015, the Groups' share of its joint ventures were as follows.

In HK$ million	2014	**2015**
Commitment to provide funding	112	**96**
Operating lease commitments		
– within 1 year	3	**3**
– after 1 year but within 5 years	5	**5**

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2015, the Groups' share of contingent liabilities relating to its joint ventures comprised bank guarantees of HK$39 million (2014: HK$39 million) and a corporate guarantee of HK$82 million (2014: HK$158 million).

21 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Groups' principal joint venture

Set out below is the summarized unaudited financial information of GBL, the principal joint venture of the Groups and being accounted for using the equity method:

In HK$ million	2014	**2015**
Non-current assets	1,063	**1,029**
Current assets		
Cash and cash equivalents	43	**9**
Other current assets (excluding cash and cash equivalents)	20	**21**
Total current assets	63	**30**
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(261)	**(244)**
Other current liabilities (including trade payables, accrual and other payables)	(54)	**(28)**
Total current liabilities	(315)	**(272)**
Non-current liabilities		
Financial liabilities (excluding trade payables)	(842)	**(827)**
Total non-current liabilities	(842)	**(827)**
Net liabilities	(31)	**(40)**
Equity attributable to equity holders	(31)	**(40)**

In HK$ million	2014	**2015**
Revenue	227	**241**
Depreciation and amortization	(91)	**(92)**
Interest expense	(38)	**(35)**
Profit before income tax	1	**2**
Income tax	(23)	**(11)**
Loss after income tax and total comprehensive loss	(22)	**(9)**

For the year ended December 31, 2015, the aggregate total net amount of profit/(loss) after income tax, and total comprehensive income of the individually immaterial joint ventures that are accounted for using the equity method was HK$15 million (2014: HK$134 million), and HK$16 million (2014: HK$115 million), respectively.

The information above reflects the amounts presented in the financial statements of the joint ventures (not the Groups' share of those amounts) adjusted for differences in accounting policies between the Groups and the joint ventures.

21 INTERESTS IN JOINT VENTURES *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information of a principal joint venture

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Groups' interests in GBL, the principal joint venture.

In HK$ million	2014	**2015**
Net liabilities		
Beginning of year	(9)	**(31)**
Loss for the year	(22)	**(9)**
End of year	(31)	**(40)**
Interests in joint venture	50%	**50%**
Interests in joint venture	(16)	**(20)**
Loan due from a joint venture	478	**484**
Carrying value	462	**464**

As at December 31, 2015, the aggregate carrying amount of interest in individually immaterial joint venture that are accounted for using the equity method was HK$90 million (2014: HK$88 million).

During the year ended December 31, 2015, the Groups did not have any unrecognized share of losses of joint ventures (2014: nil). As at December 31, 2015, there was no accumulated share of losses of the joint ventures unrecognized by the Groups (2014: nil).

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	2014	**2015**
Listed equity securities – overseas		
Beginning of year	171	**61**
Net loss transferred to equity *(note 30)*	(110)	**(54)**
End of year	61	**7**

There was no provision for impairment (2014: nil) recognized in the consolidated income statement for the year ended December 31, 2015. The Groups do not hold any collateral over these securities.

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	2014	**2015**
Listed securities	39	**25**
Less: Securities held for employee share award to be vested within one year classified as current assets	(18)	**(14)**
Non-current portion	21	**11**

Financial assets at fair value through profit or loss represent shares of PCCW, acquired under the PCCW Purchase Scheme. Please refer to note 28(b)(iv) for details of the share award schemes of PCCW.

24 INTERESTS IN SUBSIDIARIES

a. As at December 31, 2015, particulars of the principal subsidiaries of the Company are as follows:

Company name	Country/ place of incorporation/ establishment and operation	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
HKT Group Holdings Limited (“HKTGH’)	Cayman Islands	US$636,000,005	100%	–	Investment holding
HKT Services Limited	Hong Kong	HK$1	–	100%	Provision of management services to group companies
Hong Kong Telecommunications (HKT) Limited (“HKTL”)	Hong Kong	HK$9,945,156,001	–	100%	Provision of telecommunications services
Gateway Global Communications Limited	United Kingdom	GBP1	–	100%	Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies
PCCW Global B.V.	Netherlands/ France	EUR18,000	–	100%	Sales, distribution and marketing of integrated global communications solutions and products of PCCW Global Limited and PCCW Global (HK) Limited

24 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2015, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Country/ place of incorporation/ establishment and operation	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
PCCW Global, Inc.	U.S. (Delaware)	US$18.01	–	100%	Supply of broadband internet access solutions and web services
PCCW Global Limited	Hong Kong/ Dubai Technology and Media Free Zone	HK$167,743,479	–	100%	Provision of network-based telecommunications services
PCCW Global (HK) Limited	Hong Kong	HK$10	–	100%	Provision of satellite-based and network-based telecommunications services
HKT Global (Singapore) Pte. Ltd.	Singapore/ Malaysia	S$60,956,485.64	–	100%	Provision of telecommunications solutions related services
PCCW (Macau), Limitada	Macau	MOP2,000,000	–	75%[2]	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services
CSL Mobile Limited	Hong Kong	HK$7,900,280,100 ordinary shares HK$1,254,000,000 non-voting deferred shares	–	100%	Provision of mobile services to its customers, and the sale of mobile phones and accessories
Sun Mobile Limited	Hong Kong	HK$41,600,000	–	60%	Provision of mobile communications service to customers in Hong Kong

24 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2015, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Country/ place of incorporation/ establishment and operation	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
廣州電盈綜合客戶服務技術發展有限公司[1] (PCCW Customer Management Technology and Services (Guangzhou) Limited[3])	The PRC	HK$93,240,000	–	100%	Customer service and consultancy
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	HK$2	–	100%	Provision of customer relationship management and customer contact management solutions and services
PCCW Teleservices (Hong Kong) Limited	Hong Kong	HK$350,000,002	–	100%	Provision of customer relationship management and customer contact management solutions and services
PCCW Teleservices (US), Inc.	Nebraska, U.S.	US$1,169	–	100%	Telemarketing and direct marketing services

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

Notes:

1. Represents a wholly foreign owned enterprise.
2. The equity interest held by non-controlling interests is 25% as at December 31, 2015.
3. Unofficial company name.

b. Non-controlling interests of the Groups' subsidiaries

The total non-controlling interests as at December 31, 2015 were HK$119 million (2014: HK$107 million), of which HK$53 million (2014: HK$53 million) was attributable to non-controlling interests in Unihub Global Network Technology (China) Limited.

25 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK$ million	2014	**2015**
Work-in-progress	252	**253**
Finished goods	301	**294**
Consumable inventories	68	**51**
	621	**598**

b. Trade receivables, net

In HK$ million	2014	**2015**
Trade receivables *(note (i))*	4,026	**3,590**
Less: Impairment loss for doubtful debts *(note (ii))*	(151)	**(168)**
Trade receivables, net	3,875	**3,422**

i. The aging analysis of trade receivables based on the date of invoice is set out below:

	2014	**2015**
1–30 days	2,161	**2,079**
31–60 days	542	**579**
61–90 days	258	**211**
91–120 days	146	**167**
Over 120 days	919	**554**
	4,026	**3,590**

25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

b. Trade receivables, net *(continued)*

ii. Impairment loss for doubtful debts

The movements in the provision for doubtful debts during the year, including both specific and collective loss components, are as follows:

In HK$ million	2014	**2015**
Beginning of year	123	**151**
Impairment loss recognized *(note 10(b))*	164	**284**
Uncollectible amounts written off	(136)	**(267)**
End of year	151	**168**

As at December 31, 2015, trade receivables of HK$105 million (2014: HK$151 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$105 million (2014: HK$97 million) was recognized. The Groups do not hold any collateral over these balances.

iii. Trade receivables that are not impaired

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

In HK$ million	2014	**2015**
Neither past due nor impaired	1,754	**1,676**
1–30 days past due	818	**851**
31–60 days past due	304	**269**
61–90 days past due	154	**122**
Over 90 days past due	845	**504**
Past due but not considered impaired	2,121	**1,746**
	3,875	**3,422**

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 Groups or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in trade receivables, net of the Groups were the amounts due from related parties of HK$12 million (2014: HK$25 million).

25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

c. Restricted cash

As at December 31, 2015, cash balance approximately HK$10 million (2014: nil) has been received from and restricted for the use of certain customers.

d. Trade payables

The aging analysis of trade payables based on the date of invoice is set out below:

In HK$ million	2014	**2015**
1–30 days	974	**1,410**
31–60 days	128	**95**
61–90 days	39	**79**
91–120 days	37	**96**
Over 120 days	801	**514**
	1,979	**2,194**

Included in trade payables of the Groups were the amounts due to related parties of HK$61 million (2014: HK$22 million).

e. Short-term borrowings

In HK$ million	Note	2014	**2015**
US$500 million 5.25% guaranteed notes due 2015	(i)	3,877	**–**
US$500 million 4.25% guaranteed notes due 2016	(ii)	–	**3,879**
Secured		–	**–**
Unsecured		3,877	**3,879**

(i) US$500 million 5.25% guaranteed notes due 2015

On July 20, 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 5.25% guaranteed notes due 2015, which were listed on the Singapore Exchange Securities Trading Limited. The notes were irrevocably and unconditionally guaranteed by PCCW-HKT Telephone Limited ("HKTC"), an indirectly wholly-owned subsidiary of PCCW, HKTGH and HKTL, both being wholly-owned subsidiaries of the Company. The notes ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKTL.

The notes were fully redeemed in July 2015 and were delisted from the Singapore Exchange Securities Trading Limited.

(ii) US$500 million 4.25% guaranteed notes due 2016

On August 24, 2010, PCCW-HKT Capital No.4 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 4.25% guaranteed notes due 2016, which were listed on the Singapore Exchange Securities Trading Limited. The notes were irrevocably and unconditionally guaranteed by HKTGH and HKTL and ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

The notes were fully redeemed in February 2016 and were delisted from the Singapore Exchange Securities Trading Limited.

26 LONG-TERM BORROWINGS

In HK$ million	2014	**2015**
Repayable within a period		
– over one year, but not exceeding two years	11,798	**3,544**
– over two years, but not exceeding five years	17,057	**17,386**
– over five years	3,694	**11,506**
	32,549	**32,436**
Representing:		
US$500 million 4.25% guaranteed notes due 2016 *(note (a))*	3,924	**–**
US$500 million 3.75% guaranteed notes due 2023 *(note (b))*	3,694	**3,711**
US$300 million zero coupon guaranteed notes due 2030 *(note (c))*	–	**2,308**
US$500 million 3.625% guaranteed notes due 2025 *(note (d))*	–	**3,821**
Euro200 million 1.65% guaranteed notes due 2027 *(note (e))*	–	**1,666**
Bank borrowings	24,931	**20,930**
	32,549	**32,436**
Secured	–	**–**
Unsecured	32,549	**32,436**

a. US$500 million 4.25% guaranteed notes due 2016

The notes were classified as short-term borrowings as at December 31, 2015. Please refer to note 25(e)(ii) for more details.

b. US$500 million 3.75% guaranteed notes due 2023

On March 8 2013, PCCW-HKT Capital No.5 Limited, an indirect 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.

c. US$300 million zero coupon guaranteed notes due 2030

On January 15, 2015, HKT Capital No. 1 Limited, an indirect wholly-owned subsidiary of the Company, issued US$300 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange (previously known as the GreTai Securities Market) in Taiwan, China. 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.

d. US$500 million 3.625% guaranteed notes due 2025

On April 2, 2015, HKT Capital No. 2 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 3.625% guaranteed notes due 2025, 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. Euro200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, issued Euro200 million 1.65% guaranteed notes due 2027, 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.

Please refer to note 38 for details of the Groups' bank loan facilities.

27 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	2014	**2015**
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 – fair value hedges *(note (b))*	100	**–**
Fixed-to-fixed cross currency swap contracts – cash flow hedges *(note (a)&(b))*	–	**443**

As at December 31, 2015, the Groups had outstanding cross currency swap contracts with notional contract amounts of US$1,000 million (approximately HK$7,756 million) (2014: US$1,000 million (approximately HK$7,769 million)) and Euro200 million (approximately HK$1,665 million) (2014: nil), at various rates, to manage the Groups' exposure to foreign currency and interest rate risk. The Groups had a 5 years foreign exchange forward contract with amounts of US$376 million (approximately HK$2,905 million) to manage the Groups' exposure to foreign currency fluctuations.

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

a. The fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2015 with notional contract amounts of US$500 million (approximately HK$3,877 million) (2014: US$500 million (approximately HK$3,890 million)) were designated as cash flow hedge of the foreign currency risk in the Groups' foreign currency denominated borrowings. Maturity of these swaps match with the maturity of the underlying borrowings and the Groups have fixed the USD/HKD exchange rate at 7.7545-7.7550 (2014: 7.7790) for the notional amounts (see note 35(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contracts will be continuously released to the consolidated income statement until the repayment of the borrowings.

During the year, the Groups entered into a 5 years foreign exchange forward contract with notional contract amounts of US$376 million (approximately HK$2,905 million) (2014: nil). The contract was designated as cash flow hedge of the foreign currency risk in the Groups' foreign currency denominated borrowings. The Groups have fixed the USD/HKD exchange rate at 7.733 (2014: nil) for the notional amounts (see note 35(c)(i)). The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance cost, net", representing the ineffective portion of hedging relationship, amounted to a loss of approximately HK$15 million (2014: nil) for the year ended December 31, 2015.

During the year, the Groups entered into a fixed-to-fixed cross currency swap contract with notional contract amounts of Euro 200 million (approximately HK$1,665 million) (2014: nil). The contract was designated as cash flow hedge of the foreign currency risk in the Groups' foreign currency denominated borrowings. Maturity of these swap contracts matches with the maturity of the underlying borrowings and the Groups have fixed the Euro/HKD exchange rate at 8.3245 (2014: nil) for the notional amounts (see note 35(c)(i)). The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance cost, net", representing the ineffective portion of hedging relationship, amounted to a loss of approximately HK$17 million (2014: nil) for the year ended December 31, 2015.

27 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

b. During 2014, the Groups entered into fixed-to-floating cross currency swap contracts with notional contract amounts of US$500 million (approximately HK$3,879 million). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and fixed the USD/HKD exchange rate at 7.7570 for the notional amounts (see note 35(c)(i)). The swaps also pre-determined the interest rates at HIBOR plus 2.115% (see note 35(c)(ii)). During the year, the Groups further entered into floating-to-fixed interest rate swap contracts with an aggregate notional amount of approximately HK$3,879 million. Accordingly, the Groups had a synthetic fixed-to-fixed cross currency swap contract position and re-designated this as a cash flow hedge.

These swap and forward contracts were designated as either (i) cash flow hedges of the foreign currency risk in the Groups' foreign currency denominated borrowings or (ii) fair value hedges of the interest rate risk in the Groups' borrowings at fixed interest rates.

Gains and losses recognized in the hedging reserve under equity on those swap and forward contracts designated as cash flow hedges will be continuously released to the consolidated income statement until the repayment of the borrowings.

In 2014, those fixed-to-floating swap contracts designated as fair value hedges 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, net" in the consolidated income statement. The net effect recognized in the "Finance costs, net" represents the ineffective portion of the hedging relationship, amounted to nil (2014: a loss of HK$4 million) for the year ended December 31, 2015 (see note 11).

28 EMPLOYEE BENEFITS

a. Employee retirement benefits – Defined contribution retirement schemes

The Groups operate defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Groups.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits

i. Share Option Schemes of PCCW

PCCW operates a share option scheme which was adopted by the shareholders of PCCW at the annual general meeting of PCCW held on May 8, 2014 (the "2014 Scheme"). Under the 2014 Scheme, the PCCW Board shall be entitled to offer to grant a share option to any eligible participant whom the Board may, at its absolute discretion, select. The major terms of the 2014 Scheme are set out below:

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

(ii) Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of the PCCW Group or any member of it, whether in full time or part time employment of the PCCW Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the PCCW Group or any member of it and any other person whomsoever is determined by the PCCW Board as having contributed to the development, growth or benefit of the PCCW Group or any member of it or as having spent any material time in or about the promotion of the PCCW 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) 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 in issue as at the date of adoption of the 2014 Scheme. Subject to the listing Rules requirements, the 10% limit may be renewed with prior shareholders' approval. 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 PCCW must not exceed 30% of the shares in issue from time to time. As at the date of this annual report, the total number of Shares available for issue in respect of which options may be granted under the 2014 Scheme is 728,229,465, representing approximately 9.56% of the Shares in issue as at that date.

(iv) The total number of Shares issued and to be issued upon exercise of options granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of PCCW, or any of their respective associates) under the 2014 Scheme in any 12-month period shall not exceed 1% of the Shares in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of PCCW, or any of their respective associates, the said limit is reduced to 0.1% of the Shares in issue and HK$5 million in aggregate value based on the closing price of the Shares on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders' approval at general meeting.

(v) The 2014 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2014 Scheme shall be determined by the PCCW Board, provided that such terms and conditions shall not be inconsistent with the 2014 Scheme and no option may be exercised 10 years after the date of grant.

(vi) The 2014 Scheme does not specify any consideration which is payable on the acceptance of an option. 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.

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

i. Share Option Schemes of PCCW *(continued)*

(vii) The exercise price in relation to each option 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; and (ii) the average closing price of the Shares 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.

(viii) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the PCCW Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2014 Scheme shall remain in full force and effect in all other respects.

No share options have been granted under the 2014 Scheme since its adoption and up to and including December 31, 2015.

ii. Share Stapled Units Option Scheme

The HKT Trust and the Company conditionally adopted on November 7, 2011 (the "Adoption Date") a Share Stapled Units option scheme (the "2011-2021 Option Scheme") which became effective upon listing of the Share Stapled Units. Under the 2011-2021 Option Scheme, the Trustee-Manager Board and the Company Board shall be entitled to offer to grant a Share Stapled Unit option to any eligible participant the Trustee-Manager Board and the Company Board may, at their absolute discretion, select. The major terms of the 2011-2021 Option Scheme are set out below:

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

(2) Eligible participants include (a) any full time or part time employee of the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of the Company and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries. The Trustee-Manager is not an eligible participant under the 2011-2021 Option Scheme.

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

(ii) Subject to the further limitation in (i) above, as required by the Listing Rules, the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and the Company 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.

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

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

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

As at the date of this annual report, the total number of Share Stapled Units available for issue in respect of which options may be granted under the 2011-2021 Option Scheme is 641,673,079, representing approximately 8.47% of the Share Stapled Units in issue as at that date.

(4) The total number of Share Stapled Units issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial holder of Share Stapled Units or an independent non-executive director of the Company, or any of their respective associates) under the 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the 2011-2021 Option Scheme) in any 12-month period shall not exceed 1% of the Share Stapled Units in issue at the relevant time. For options granted or to be granted to a substantial holder of Share Stapled Units or an independent non-executive director of the Company, or any of their respective associates, the said limit is reduced to 0.1% of the Share Stapled Units in issue and HK$5 million in aggregate value based on the closing price of the Share Stapled Units on the date of each grant. Any further grant of Share Stapled Unit options in excess of such limits is subject to the approval of registered holders of Share Stapled Units at general meeting.

(5) The 2011-2021 Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2011-2021 Option Scheme shall be determined by the Trustee-Manager Board and the Company Board, provided that such terms and conditions shall not be inconsistent with the 2011-2021 Option Scheme and no option may be exercised 10 years after the date of grant.

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

(7) The subscription price for Share Stapled Units in respect of any particular option 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 grant, which must be a business day; (ii) the average closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet for the 5 business days immediately preceding the date of grant; and (iii) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.

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

No Share Stapled Unit options have been granted under the 2011-2021 Option Scheme since its adoption and up to and including December 31, 2015.

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company

On October 11, 2011, the Company conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "Share Stapled Units Award Schemes"). The purposes of the Share Stapled Units Award Schemes are to incentivize and reward eligible participants for their contribution to the growth of the HKT Limited Group and to provide the HKT Limited Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants.

Eligible participants of the HKT Share Stapled Units Purchase Scheme include (a) any full time or part time employees of the Company and/or any of its subsidiaries; and (b) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries. Eligible participants of the HKT Share Stapled Units Subscription Scheme are the same as the HKT Share Stapled Units Purchase Scheme except that the directors of the Company or its subsidiaries and/or any other connected persons of the Company are not eligible participants.

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

Pursuant to the scheme rules, no sum of money shall be set aside and no Share Stapled Units shall be purchased or subscribed (as the case may be), nor any amounts paid to the Trustee for the purpose of making such a purchase or subscription, if, as a result of such purchase or subscription, the number of Share Stapled Units administered under the respective schemes would represent in excess of 1% of the total number of Share Stapled Units in issue from time to time, excluding the Share Stapled Units which have been transferred to eligible participants on vesting. In addition, under the HKT Share Stapled Units Subscription Scheme, no sum of money shall be set aside and no Share Stapled Units shall be subscribed nor any amounts paid to the Trustee for the purpose of making such a subscription if:

(i) as a result of such subscription, PCCW's aggregate holding of Share Stapled Units would on a fully-diluted basis (which shall take into account the relevant subscription(s) proposed to be made under the HKT Share Stapled Units Subscription Scheme, the amount of all outstanding options in respect of Share Stapled Units as granted pursuant to the 2011-2021 Option Scheme, and all other rights or entitlements granted by the Company concerning the prospective allotment of new Share Stapled Units) represent less than 51% of the total number of Share Stapled Units as would exist were all such commitments to allot new Share Stapled Units to be duly fulfilled; or

(ii) the Company does not have a relevant general mandate or specific mandate from holders of Share Stapled Units necessary to effect the allotment and issue of Share Stapled Units pursuant to the scheme.

In respect of the HKT Share Stapled Units Purchase Scheme, the relevant committee of the Company Board may either (i) set aside a sum of money; or (ii) determine a number of Share Stapled Units which it wishes to be the subject of a bonus award. The relevant committee of the Company Board must then pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Share Stapled Units, as the case may be, to the Trustee (or as it shall direct) from the HKT Limited Group's resources, and the Trustee will then apply the same towards the purchase of the relevant Share Stapled Units on the Stock Exchange pursuant to the trust deed.

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company *(continued)*

In respect of the HKT Share Stapled Units Subscription Scheme, the relevant committee of the Company Board will determine a number of Share Stapled Units which it wishes to be the subject of a bonus award. The relevant committee of the Company Board must then pay (or cause to be paid) an amount sufficient to subscribe for that number of Share Stapled Units at the Specified Price (as defined below) from the HKT Limited Group's resources, and the Trustee shall then apply the same towards the subscription of the awarded Share Stapled Units at the Specified Price, provided always that no Share Stapled Units shall be allotted in respect of such subscription unless and until the Company shall have received from the Stock Exchange a grant of the listing of, and permission to deal in, such Share Stapled Units. For these purposes, the "Specified Price" means the price determined by the Company in conjunction with the Trustee-Manager as being the higher of:

(i) the closing price of the Share Stapled Units on the Stock Exchange on the trading day immediately preceding the relevant award date; and

(ii) the average of the closing prices of the Share Stapled Units on the Stock Exchange in the 10 trading days immediately prior to the earlier of (a) the date of announcement (if applicable) of the proposed allotment of the relevant Share Stapled Units pursuant to an award under the scheme; (b) the relevant award date; and (c) the date on which the allotment price for the relevant Share Stapled Units is otherwise fixed.

Subject to the relevant scheme rules, each scheme provides that following the making of an award to an employee of the HKT Limited Group, the relevant Share Stapled Units are held in trust for that employee and then shall vest over a period of time determined by the Company Board 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 Company Board shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, eligible participants are not required to provide any consideration in order to acquire the Share Stapled Units awarded to him/her under the schemes.

The Share Stapled Units Award Schemes, unless terminated earlier, shall be valid and effective for a term of 10 years commencing from October 11, 2011, being the date of adoption. The Company Board may also by resolution terminate the operation of the schemes at any time subject to the terms of the schemes.

As at the date of this annual report, an aggregate of 8,155,710 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested, which represents approximately 0.11% of the total number of Share Stapled Units in issue as at that date. No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2015.

Further details of the Share Stapled Units Award Schemes, including the fair values of the Share Stapled Units on the respective dates of award, are set out in note 28(b)(iii) to the HKT Trust and HKT Limited consolidated financial statements.

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

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company *(continued)*

Awards may be made by the Company Board or any committee, sub-committee or person duly delegated, such as the remuneration committee and, in the case of Share Stapled Units that are not vested or transferred as originally intended the Trustee may hold such units and income deriving therefrom for the purpose of any eligible participants, having taken into consideration the recommendations of the Company Board.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Subscription Scheme for the years ended December 31, 2014 and 2015.

A summary of movements in the Share Stapled Units held under the HKT Share Stapled Units Purchase Scheme during the year is as follows:

	Number of Share Stapled Units	
	2014	**2015**
Beginning of year	7,360,797	**5,978,109**
Purchase from the market by the Trustee at the weighted average market price of HK$9.92 (2014: HK$9.05) per Share Stapled Unit	190,000	**9,326,000**
Purchase under the rights issue of the Company by the trustee at subscription price of nil (2014: HK$6.84) per Share Stapled Unit	1,007,112	**–**
Share Stapled Units vested	(2,579,800)	**(5,707,168)**
End of year	5,978,109	**9,596,941**

Details of Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the unvested Share Stapled Units are as follows:

(1) Movements in the number of unvested Share Stapled Units and their related weighted average fair value at their measurement dates

	2014		**2015**	
	Weighted average fair value at date of award HK$	Number of Share Stapled Units	**Weighted average fair value at date of award HK$**	**Number of Share Stapled Units**
Beginning of year	7.27	2,955,982	**8.89**	**12,995,117**
Awarded *(note (3))*	9.03	12,962,935	**10.30**	**1,572,820**
Forfeited *(note (4))*	8.99	(344,000)	**9.16**	**(705,059)**
Vested *(note (5))*	7.71	(2,579,800)	**8.70**	**(5,707,168)**
End of year *(note (2))*	8.89	12,995,117	**9.27**	**8,155,710**

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company *(continued)*

(2) Terms of unvested Share Stapled Units as at the end of the reporting period

Date of award	Vesting period	Fair value at date of award HK$	Number of Share Stapled Units 2014	**2015**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	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	**718,558**
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	**2,949,476**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	3,181,434	**2,948,821**
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	–	**1,215**
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	–	**1,215**
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	–	**768,644**
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	–	**767,781**
			12,995,117	**8,155,710**

The unvested Share Stapled Units at December 31, 2015 had a weighted average remaining vesting period of 0.73 years (2014: 1.04 years).

(3) Details of Share Stapled Units awarded during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of Share Stapled Units 2014	**2015**
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	–
April 1, 2015	April 1, 2015 to April 1, 2015	10.20	–	**2,074**
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	–	**2,070**
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	–	**2,070**
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	–	**783,750**
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	–	**782,856**
			12,962,935	**1,572,820**

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company *(continued)*

(4) Details of Share Stapled Units forfeited during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of Share Stapled Units 2014	**2015**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	6,647	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	13,847	**1,760**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	8,813	**4,041**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	8,806	**14,025**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	101,976	**188,004**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	101,976	**232,725**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	101,935	**232,613**
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	–	**855**
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	–	**855**
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	–	**15,106**
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	–	**15,075**
			344,000	**705,059**

(5) Details of Share Stapled Units vested during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of Share Stapled Units 2014	**2015**
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	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	–	**1,167,996**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	–	**728,833**
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	–	**3,808,265**
April 1, 2015	April 1, 2015 to April 1, 2015	10.20	–	**2,074**
			2,579,800	**5,707,168**

The fair value of the Share Stapled Units awarded during the year at the measurement dates is measured by the quoted market price of the Share Stapled Units at the respective award dates.

During the year, share-based compensation expenses of HK$48 million (2014: HK$59 million) is recognized for the Share Stapled Units Award Schemes in the consolidated income statement and employee share-based compensation reserve of HK$48 million (2014: HK$59 million) is recognized.

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW

PCCW adopted two employee share incentive award schemes, namely the Purchase Scheme and the Subscription Scheme (collectively, the "PCCW Share Award Schemes") with the purposes and objectives to recognize the contributions by eligible participants and to give incentives thereto in order to retain them for the continual operation and development of the PCCW Group and to attract suitable personnel for further development of the PCCW Group.

Eligible participants of the Purchase Scheme include directors and employees of PCCW and its participating subsidiaries. Eligible participants of the Subscription Scheme include employees of PCCW and its participating subsidiaries, excluding any director of PCCW and its subsidiaries.

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

Pursuant to the scheme rules, no sum of money shall be set aside and no Shares/Share Stapled Units shall be purchased or subscribed (as the case may be), nor any amounts paid to the Trustee for the purpose of making such a purchase or subscription, if, as a result of such purchase or subscription, the number of Shares/Share Stapled Units administered under the schemes and any other scheme of a similar nature adopted by PCCW and/or any of its subsidiaries would represent in excess of 1% of the total number of Shares in issue and/or 1% of the total number of Share Stapled Units in issue (excluding Shares/Share Stapled Units which have been transferred to employees on vesting) and provided further that the relevant committee of the PCCW Board may resolve to increase such limit at its sole discretion.

In respect of the Purchase Scheme, the relevant committee of the PCCW Board may either (i) set aside a sum of money; or (ii) determine a number of Shares/Share Stapled Units which it wishes to be the subject of a bonus award. The relevant committee of the PCCW Board must then pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Shares/Share Stapled Units, as the case may be, to the Trustee (or as it shall direct) from the PCCW Group's resources and the Trustee will then apply the same towards the purchase of the relevant Shares/Share Stapled Units on the Stock Exchange pursuant to the trust deed.

In respect of the Subscription Scheme, the relevant committee of the PCCW Board may either determine (i) a number of Shares/Share Stapled Units; or (ii) a notional cash amount which it wishes to be the subject of a bonus award. If the latter, a number of Shares/Share Stapled Units referable to that notional cash amount will be calculated based on the market price of the Shares/Share Stapled Units on the date of award, and that number of Shares/Share Stapled Units will form the basis of the award. The relevant committee of the PCCW Board must then pay (or cause to be paid) an amount sufficient to subscribe for that number of Shares/Share Stapled Units from PCCW's resources and the Trustee shall then apply the same towards the subscription of Shares/Share Stapled Units at a price to be determined by the relevant committee of the PCCW Board pursuant to the trust deed. No Shares/Share Stapled Units shall be allotted unless and until PCCW and/or HKT (as the case may be) shall have received from the Stock Exchange a grant of the listing of, and permission to deal in, such Shares/Share Stapled Units and unless and until such allotment have been approved by the PCCW Board and/or the board of directors of HKT (the "HKT Board") (as the case may be), and the shareholders of PCCW and/or the holders of the Share Stapled Units (where required).

Subject to the relevant scheme rules, each scheme provides that following the making of an award to an employee, the relevant Shares/Share Stapled Units are held in trust for that employee and then shall vest over a period of time determined by the relevant committee of the PCCW Board provided that the employee remains an employee at the relevant time and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant committee of the PCCW Board shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, eligible participants are not required to provide any consideration in order to acquire the Shares/Share Stapled Units awarded to him/her under the schemes.

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(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, in the future. The relevant committee of the PCCW Board may by resolution terminate the operation of the schemes at any time subject to the terms of the schemes.

A summary of movements in PCCW shares held by the Groups under the PCCW Purchase Scheme in respect of eligible employees of the Company and/or its subsidiaries during the year is as follows:

	Number of PCCW shares	
	2014	**2015**
Beginning of year	5,487,130	**7,393,665**
Purchase from the market by the Trustee at the weighted average market price of HK$4.99 (2014: nil) per PCCW share	–	**1,600,000**
PCCW shares obtained under the PCCW Subscription Scheme	5,000,000	**–**
PCCW shares vested	(3,092,530)	**(3,543,570)**
Transfer to grantees in lieu of cash dividends	(935)	**(1,054)**
End of year	7,393,665	**5,449,041**

Details of PCCW shares awarded pursuant to the PCCW share award schemes during the year and the unvested PCCW shares, are as follows:

(1) Movements in the number of unvested PCCW shares and their related weighted average fair value on the date of award

	2014		**2015**	
	Weighted average fair value at date of award HK$	Number of PCCW shares	**Weighted average fair value at date of award HK$**	**Number of PCCW shares**
The PCCW Purchase Scheme:				
Beginning of year	3.43	5,062,070	**3.72**	**2,659,132**
Awarded *(note (3))*	3.99	715,566	**5.35**	**1,042,482**
Forfeited *(note (4))*	3.62	(25,974)	**3.62**	**(2,517)**
Vested *(note (5))*	3.32	(3,092,530)	**3.68**	**(2,298,835)**
End of year *(note (2))*	3.72	2,659,132	**5.00**	**1,400,262**
The PCCW Subscription Scheme:				
Beginning of year	–	–	**3.99**	**2,515,253**
Awarded *(note (3))*	3.99	2,582,240	**5.35**	**2,033,480**
Forfeited *(note (4))*	3.99	(66,987)	**4.62**	**(127,461)**
Vested *(note (5))*	–	–	**3.99**	**(1,244,735)**
End of year *(note (2))*	3.99	2,515,253	**4.84**	**3,176,537**
Total		5,174,385		**4,576,799**

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

(2) Terms of unvested PCCW shares as at the end of the reporting period

Date of award	Vesting period	Fair value at date of award HK$	Number of PCCW shares 2014	2015
The PCCW Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	1,943,566	**–**
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	357,786	**–**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	357,780	**357,780**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	–	**521,244**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	–	**521,238**
			2,659,132	**1,400,262**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	1,257,872	**–**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	1,257,381	**1,202,293**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	–	**987,542**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	–	**986,702**
			2,515,253	**3,176,537**
Total			5,174,385	**4,576,799**

The PCCW shares unvested at December 31, 2015 had a weighted average remaining vesting period of 0.66 years (2014: 0.57 years).

(3) Details of PCCW shares awarded during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of PCCW shares 2014	2015
The PCCW Purchase Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	357,786	**–**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	357,780	**–**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	–	**521,244**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	–	**521,238**
			715,566	**1,042,482**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	1,291,377	**–**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	1,290,863	**–**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	–	**1,017,183**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	–	**1,016,297**
			2,582,240	**2,033,480**
Total			3,297,806	**3,075,962**

28 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

(4) Details of PCCW shares forfeited during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of PCCW shares 2014	Number of PCCW shares **2015**
The PCCW Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	10,484	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	15,490	**2,517**
			25,974	**2,517**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	33,505	**13,137**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	33,482	**55,088**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	–	**29,641**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	–	**29,595**
			66,987	**127,461**
Total			92,961	**129,978**

(5) Details of PCCW shares vested during the year

Date of award	Vesting period	Fair value at date of award HK$	Number of PCCW shares 2014	Number of PCCW shares **2015**
The PCCW Purchase Scheme:				
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	1,143,842	**–**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	1,948,688	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	–	**1,941,049**
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**357,786**
			3,092,530	**2,298,835**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**1,244,735**

The fair value of the PCCW shares awarded during the year at the measurement dates is measured by the quoted market price of the PCCW shares at the respective award dates.

During the year, share-based compensation expenses of HK$12 million (2014: HK$19 million) is recognized in the consolidated income statement and HK$12 million (2014: HK$19 million) is recognized as an obligation in liabilities.

29 EQUITY OF HKT LIMITED

	2014 Number of shares	2014 Nominal value HK$	**2015 Number of shares**	**2015 Nominal value HK$**
Authorized:				
Ordinary shares of HK$0.0005 each				
Beginning and end of year	20,000,000,000	10,000,000	**20,000,000,000**	**10,000,000**
Preference shares of HK$0.0005 each				
Beginning and end of year	20,000,000,000	10,000,000	**20,000,000,000**	**10,000,000**
Issued and fully paid:				
Ordinary shares of HK$0.0005 each				
At January 1	6,416,730,792	3,208,365	**7,571,742,334**	**3,785,871**
Issued and allocated pursuant to the Rights Issue of Share Stapled Units	1,155,011,542	577,506	**–**	**–**
At December 31	7,571,742,334	3,785,871	**7,571,742,334**	**3,785,871**
Preference shares of HK$0.0005 each				
At January 1	6,416,730,792	3,208,365	**7,571,742,334**	**3,785,871**
Issued and allocated pursuant to the Rights Issue of Share Stapled Units	1,155,011,542	577,506	**–**	**–**
At December 31	7,571,742,334	3,785,871	**7,571,742,334**	**3,785,871**

a. During the year ended December 31, 2014, the Company issued 1,155,011,542 new share stapled units (the "Rights Share Stapled Units") and allocated under the rights issue at the subscription price of HK$6.84 per Rights Share Stapled Unit on the basis of 18 Rights Share Stapled Units for every 100 existing Share Stapled Units held on June 27, 2014 ("Rights Issue"). The net proceed after issuance expenses from the Rights Issue was approximately HK$7.8 billion.

29 EQUITY OF HKT LIMITED *(CONTINUED)*

Movements in reserves of the Company during the years ended December 31, 2014 and 2015 are as follows:

In HK$ million	2014		
	Share premium	Retained profits	Total
At January 1, 2014	27,344	62	27,406
Dividend paid in respect of the previous year	–	(1,553)	(1,553)
Interim dividend paid in respect of current year	–	(1,590)	(1,590)
Rights Issue of Share Stapled Units *(note 29(a))*	7,769	–	7,769
Total comprehensive income for the year	–	3,148	3,148
At December 31, 2014	35,113	67	35,180

In HK$ million	**2015**		
	Share premium	**Retained profits**	**Total**
At January 1, 2015	**35,113**	**67**	**35,180**
Dividend paid in respect of the previous year	**–**	**(1,764)**	**(1,764)**
Interim dividend paid in respect of current year	**–**	**(1,953)**	**(1,953)**
Total comprehensive income for the year	**–**	**3,743**	**3,743**
At December 31, 2015	**35,113**	**93**	**35,206**

30 RESERVES

In HK$ million	2014									
	Share Premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Other reserves	Equity compensation reserve	Treasury stock	Retained profits	Total
At January 1, 2014	–	26,250	442	(347)	114	86	12	(56)	4,116	30,617
Comprehensive income										
Profit for the year	–	–	–	–	–	–	–	–	2,991	2,991
Other comprehensive income										
Items that may be reclassified subsequently to consolidated income statement:										
Exchange differences on translating foreign operations	–	–	(150)	–	–	–	–	–	–	(150)
Exchange differences on translating foreign operations transferred to consolidated income statement upon disposal	–	–	(79)	–	–	–	–	–	–	(79)
Available-for-sale financial assets:										
– changes in fair value *(note 22)*	–	–	–	–	–	(110)	–	–	–	(110)
Cash flow hedges:										
– effective portion of changes in fair value	–	–	–	–	(18)	–	–	–	–	(18)
– transfer from equity to consolidated income statement	–	–	–	–	(24)	–	–	–	–	(24)
Total comprehensive income for the year	–	–	(229)	–	(42)	(110)	–	–	2,991	2,610
Transactions with equity holders										
Contributions by and distributions to equity holders:										
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	–	–	(9)	–	(9)
Employee share-based compensation	–	–	–	–	–	–	59	–	–	59
Receipt of PCCW shares under the PCCW Subscription Scheme	–	–	–	–	–	21	–	–	–	21
Vesting of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	–	(20)	20	–	–
Distribution/Dividend paid in respect of the previous year	–	–	–	–	–	–	(1)	–	(1,552)	(1,553)
Interim distribution/dividend declared and paid in respect of the current year	–	–	–	–	–	–	(1)	–	(1,589)	(1,590)
Rights Issue of Share Stapled Units *(note 29a)*	7,769	–	–	–	–	–	–	–	–	7,769
Total transactions with equity holders	7,769	–	–	–	–	21	37	11	(3,141)	4,697
At December 31, 2014	7,769	26,250	213	(347)	72	(3)	49	(45)	3,966	37,924

30 RESERVES *(CONTINUED)*

In HK$ million	2015									
	Share Premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Other reserves	Equity compensation reserve	Treasury stock	Retained profits	Total
At January 1, 2015	7,769	26,250	213	(347)	72	(3)	49	(45)	3,966	37,924
Comprehensive income										
Profit for the year	–	–	–	–	–	–	–	–	3,949	3,949
Other comprehensive income										
Items that may be reclassified subsequently to consolidated income statement:										
Exchange differences on translating foreign operations	–	–	(109)	–	–	–	–	–	–	(109)
Available-for-sale financial assets:										
– changes in fair value *(note 22)*	–	–	–	–	–	(54)	–	–	–	(54)
Cash flow hedges:										
– effective portion of changes in fair value	–	–	–	–	(263)	–	–	–	–	(263)
– transfer from equity to consolidated income statement	–	–	–	–	(77)	–	–	–	–	(77)
Total comprehensive income for the year	–	–	(109)	–	(340)	(54)	–	–	3,949	3,446
Transactions with equity holders										
Contributions by and distributions to equity holders:										
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	–	–	(93)	–	(93)
Employee share-based compensation	–	–	–	–	–	–	48	–	–	48
Vesting of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	–	(51)	51	–	–
Distribution/Dividend paid in respect of the previous year	–	–	–	–	–	–	(2)	–	(1,762)	(1,764)
Interim distribution/dividend declared and paid in respect of the current year	–	–	–	–	–	–	(2)	–	(1,951)	(1,953)
Total transactions with equity holders	–	–	–	–	–	–	(7)	(42)	(3,713)	(3,762)
At December 31, 2015	7,769	26,250	104	(347)	(268)	(57)	42	(87)	4,202	37,608

31 DEFERRED INCOME TAX

a. Movements in deferred income tax liabilities/(assets) during the year are as follows:

In HK$ million	2014			
	Accelerated tax depreciation and amortization	Tax losses	Others	Total
Beginning of year	1,793	(362)	21	1,452
Credited to the consolidated income statement *(note 13(a))*	(138)	–	(13)	(151)
Additions upon business combinations	921	–	–	921
Exchange differences	–	–	(2)	(2)
End of year	2,576	(362)	6	2,220

In HK$ million	**2015**			
	Accelerated tax depreciation and amortization	**Tax losses**	**Others**	**Total**
Beginning of year	**2,576**	**(362)**	**6**	**2,220**
(Credited)/charged to the consolidated income statement *(note 13(a))*	**(32)**	**137**	**2**	**107**
Additions upon business combinations	**–**	**(8)**	**–**	**(8)**
Exchange differences	**–**	**–**	**2**	**2**
End of year	**2,544**	**(233)**	**10**	**2,321**

In HK$ million	2014	**2015**
Deferred income tax assets:		
– to be recovered after more than 12 months	(280)	**(74)**
– to be recovered within 12 months	(91)	**(157)**
Deferred income tax assets recognized in the consolidated statement of financial position	(371)	**(231)**
Deferred income tax liabilities:		
– to be recovered after more than 12 months	2,349	**2,279**
– to be recovered within 12 months	242	**273**
Deferred income tax liabilities recognized in the consolidated statement of financial position	2,591	**2,552**
Deferred income tax liabilities (net)	2,220	**2,321**

31 DEFERRED INCOME TAX *(CONTINUED)*

b. The Groups had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$3,600 million as at December 31, 2015 (2014: HK$4,448 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$4 million as at December 31, 2015 (2014: HK$14 million) will expire within 1 to 5 years. Estimated adjusted tax losses of HK$804 million as at December 31, 2015 will expire after 5 years (2014: HK$822 million). The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

32 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2015, the Groups had carrier licence fee liabilities repayable as follows:

In HK$ million	2014			**2015**		
	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	**Present value of the minimum annual fees**	**Interest expense relating to future periods**	**Total minimum annual fees**
Repayable within a period						
– not exceeding one year	433	30	463	**452**	**30**	**482**
– over one year, but not exceeding two years	375	69	444	**123**	**19**	**142**
– over two years, but not exceeding five years	307	117	424	**312**	**112**	**424**
– over five years	272	171	443	**192**	**100**	**292**
	1,387	387	1,774	**1,079**	**261**	**1,340**
Less: Amounts repayable within one year included under current liabilities	(433)	(30)	(463)	**(452)**	**(30)**	**(482)**
	954	357	1,311	**627**	**231**	**858**

33 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	2014	**2015**
Profit before income tax	3,300	**4,586**
Adjustments for:		
Interest income	(53)	**(63)**
Finance costs	1,172	**1,324**
Cash flow hedges: transferred from equity	1	**1**
Cash flow hedges: changes in fair value	–	**32**
Fair value hedges: changes in fair value	4	**–**
Impact of re-designation of fair value hedges	–	**16**
Net gains on cash flow hedging instruments transferred from equity	(22)	**(67)**
Net gain on fair value hedging instruments	(47)	**(48)**
Other (gain)/loss	(27)	**2**
Depreciation of property, plant and equipment	3,071	**1,854**
Loss/(gain) on disposals of property, plant and equipment, net	2	**(5)**
Gain on disposal of a subsidiary	(55)	**–**
Provision for inventory obsolescence	10	**8**
Impairment loss for doubtful debts	164	**284**
Amortization of intangible assets	2,802	**4,335**
Amortization of land lease premium	13	**13**
Share of results of joint ventures	(6)	**(2)**
Share of results of an associate	35	**27**
Impairment loss on an interest in an associate	52	**95**
Share-based payment and post-employment benefit	82	**48**
Increase in treasury stock for equity compensation scheme	(9)	**(93)**
Decrease/(increase) in operating assets		
– inventories	472	**16**
– trade receivables	(138)	**177**
– prepayments, deposits and other current assets	(430)	**(452)**
– restricted cash	–	**(10)**
– amounts due from related companies	3	**56**
– other non-current assets	4	**9**
(Decrease)/increase in operating liabilities		
– trade payables, accruals and other payables	(270)	**(483)**
– other long-term liabilities	24	**(1)**
– advances from customers	(186)	**58**
– amounts due to a related company	(42)	**(40)**
– deferred income (non-current)	18	**46**
Cash generated from operations	9,944	**11,723**
Interest received	20	**11**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(326)	**(311)**
– Overseas profits tax paid	(69)	**(54)**
Net cash generated from operating activities	9,569	**11,369**

33 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS *(CONTINUED)*

b. Additions upon business combinations

In HK$ million	2014	**2015**
Purchase consideration	20,029	**198**
Net assets/(liabilities) acquired:		
Property, plant and equipment	1,993	**56**
Intangible assets	6,391	**12**
Inventories, trade receivables, prepayments, deposits and other current assets	1,776	**17**
Cash and cash equivalents	1,186	**1**
Trade payables, accruals, other payables and advances from customers	(3,655)	**(41)**
Current income tax liabilities	(308)	**–**
Deferred income tax (liabilities)/assets	(921)	**8**
Deferred income	(64)	**–**
Non-controlling interests	(36)	**–**
Defined benefit assets	26	**–**
Interest in a joint venture	14	**–**
	6,402	**53**
Goodwill on acquisition	13,627	**145**
Analysis of net outflow of cash and cash equivalents in respect of additions upon business combinations:		
Purchase consideration	20,029	**172**
Add: Settlement of obligation assumed upon business combination	–	**26**
Less: Consideration payable	(74)	**(4)**
	19,955	**194**
Cash and cash equivalents of subsidiaries acquired	(1,186)	**(1)**
Net outflow	18,769	**193**
Settlement of contingent consideration upon business combination	–	**77**

c. Major non-cash transactions

During the year ended December 31, 2015, return on investment of a joint venture of approximately nil (2014: HK$55 million) was received by a fellow subsidiary on behalf of the Groups.

d. Analysis of cash and cash equivalents

In HK$ million	2014	**2015**
Cash and bank balances	3,613	**3,768**
Cash and cash equivalents as at December 31,	3,613	**3,768**

34 CAPITAL MANAGEMENT

The Groups' primary objectives when managing capital are to safeguard the Groups' ability to continue as a going concern, so that it can continue to provide returns for equity holders of the Groups, to support the Groups' stability and growth; and to earn a margin commensurate with the level of business and market risks in the Groups' operation.

The Groups monitor capital by reviewing the level of capital that is at the disposal of the Groups ("adjusted capital"), taking into consideration the future capital requirements of the Groups, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises all components of equity.

The Groups are not subject to externally imposed capital requirements, except for the debt covenant requirements of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

35 FINANCIAL INSTRUMENTS

The table below analyses financial instruments by category:

In HK$ million	2014				
	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale financial asset	Total
Non-current assets					
Available-for-sale financial assets	–	–	–	61	61
Financial assets at fair value through profit or loss	–	21	–	–	21
Other non-current assets	25	–	–	–	25
	25	21	–	61	107
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	3,546	–	–	–	3,546
Trade receivables, net	3,875	–	–	–	3,875
Derivative financial instruments	–	–	49	–	49
Financial assets at fair value through profit or loss	–	18	–	–	18
Amount due from related companies	76	–	–	–	76
Cash and cash equivalents	3,613	–	–	–	3,613
	11,110	18	49	–	11,177
Total	11,135	39	49	61	11,284

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category: *(continued)*

In HK$ million	2014		
	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Short-term borrowings	–	3,877	3,877
Trade payables	–	1,979	1,979
Accruals and other payables	–	5,023	5,023
Carrier licence fee liabilities	–	433	433
Amounts due to a related company	–	94	94
Amounts due to fellow subsidiaries	–	278	278
	–	11,684	11,684
Non-current liabilities			
Long-term borrowings	–	32,549	32,549
Derivative financial instruments	100	–	100
Carrier licence fee liabilities	–	954	954
Other long-term liabilities	–	119	119
	100	33,622	33,722
Total	100	45,306	45,406

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category: *(continued)*

In HK$ million	2015 Loans and receivables	2015 Assets at fair value through profit or loss	2015 Total
Non-current assets			
Financial assets at fair value through profit or loss	–	11	11
Other non-current assets	102	–	102
	102	11	113
Current assets			
Prepayments, deposits and other current assets (excluding prepayments)	3,951	–	3,951
Trade receivables, net	3,422	–	3,422
Financial assets at fair value through profit or loss	–	14	14
Amount due from related companies	73	–	73
Cash and cash equivalents	3,768	–	3,768
	11,214	14	11,228
Total	11,316	25	11,341

In HK$ million	2015 Derivatives used for hedging	2015 Other financial liabilities at amortized cost	2015 Total
Current liabilities			
Short-term borrowings	–	3,879	3,879
Trade payables	–	2,194	2,194
Accruals and other payables	–	4,900	4,900
Carrier licence fee liabilities	–	452	452
Amounts due to a related company	–	72	72
Amounts due to fellow subsidiaries	–	353	353
	–	11,850	11,850
Non-current liabilities			
Long-term borrowings	–	32,436	32,436
Derivative financial instruments	443	–	443
Carrier licence fee liabilities	–	627	627
Other long-term liabilities	–	267	267
	443	33,330	33,773
Total	443	45,180	45,623

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

Exposures to credit, liquidity and market risks (including foreign currency risk and interest rate risk) arise in the normal course of the Groups' business. The Groups are also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Groups' financial management policies and practices described below.

a. Credit risk

The Groups' credit risk is primarily attributable to trade receivables, interest receivable, 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 have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Groups maintain a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payables are requested to settle all outstanding balances before any further credit is granted. Normally, the Groups do not obtain collateral from customers. As at December 31, 2014 and 2015, the Groups did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Groups' exposure to credit risk arising from trade receivables are set out in note 25(b).

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, 2014 and 2015, 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 Groups do not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Groups as disclosed in note 37, the Groups do not provide any other guarantees which would expose the Groups to credit risk.

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk

The Groups' policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Groups have sufficient cash and committed facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligation to guarantee performance of its subsidiaries in the normal course of business. Please refer to note 37 for details.

The following table details the remaining contractual maturities at the end of the reporting periods of the Groups' non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting periods) and the earliest date the group can be required to pay:

In HK$ million	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 flow	Carrying Amount
Current liabilities						
Short-term borrowings	(3,992)	–	–	–	(3,992)	(3,877)
Trade payables	(1,979)	–	–	–	(1,979)	(1,979)
Accruals and other payables	(5,023)	–	–	–	(5,023)	(5,023)
Carrier licence fee liabilities	(463)	–	–	–	(463)	(433)
Amounts due to a related company	(94)	–	–	–	(94)	(94)
Amounts due to fellow subsidiaries	(278)	–	–	–	(278)	(278)
	(11,829)	–	–	–	(11,829)	(11,684)
Non-current liabilities						
Long-term borrowings	(659)	(12,212)	(18,013)	(4,195)	(35,079)	(32,549)
Derivative financial instruments	45	10	(87)	(85)	(117)	(100)
Carrier licence fee liabilities	–	(444)	(424)	(443)	(1,311)	(954)
Other long-term liabilities	(14)	(6)	(47)	(107)	(174)	(119)
	(628)	(12,652)	(18,571)	(4,830)	(36,681)	(33,722)
Total	(12,457)	(12,652)	(18,571)	(4,830)	(48,510)	(45,406)

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	2015					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying Amount
Current liabilities						
Short-term borrowings	(3,907)	–	–	–	(3,907)	(3,879)
Trade payables	(2,194)	–	–	–	(2,194)	(2,194)
Accruals and other payables	(4,889)	–	–	–	(4,889)	(4,900)
Carrier licence fee liabilities	(482)	–	–	–	(482)	(452)
Amounts due to a related company	(72)	–	–	–	(72)	(72)
Amounts due to fellow subsidiaries	(353)	–	–	–	(353)	(353)
	(11,897)	–	–	–	(11,897)	(11,850)
Non-current liabilities						
Long-term borrowings	(616)	(4,138)	(18,864)	(14,954)	(38,572)	(32,436)
Derivative financial instruments *(note (i))*	(38)	(36)	(110)	(156)	(340)	(443)
Carrier licence fee liabilities	–	(142)	(424)	(292)	(858)	(627)
Other long-term liabilities *(note (ii))*	(18)	(39)	(3)	(1,025)	(1,085)	(267)
	(672)	(4,355)	(19,401)	(16,427)	(40,855)	(33,773)
Total	(12,569)	(4,355)	(19,401)	(16,427)	(52,752)	(45,623)

(i) As at December 31, 2015, derivative financial instruments of HK$16 million (2014: nil) related to the 5 years foreign exchange forward contract with notional contract amounts of US$376 million (approximately HK$2,905 million), which were designated as cash flow hedge of US$300 million zero coupon guaranteed notes due 2030. These guaranteed notes may be redeemed at the option of the Groups on January 15, 2020 at an early redemption amount of US$376 million. Please refer to note 26(c) and note 27(a) for details of the guaranteed notes and the foreign exchange forward contract respectively.

(ii) As at December 31, 2015, other long-term liabilities included HK$47 million (2014: nil) of long term interest payable, which related to interest drawn under a 12 years arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with notional contract amounts of Euro200 million (approximately HK$1,665 million). Please refer to note 26(e) and note 27(a) for details of the guaranteed notes and the fixed-to-fixed cross currency swap contract respectively.

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposures deriving from the Groups' operation, investment and funding activities. As a matter of policy, the Groups enter into cross currency swap contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Groups do not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the Boards, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Groups.

In the normal course of business, the Groups use 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 Groups operate internationally and are exposed to foreign exchange risk arising from various currency exposures. Foreign currency risk arises when the Groups' recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Groups borrowings are denominated in either Hong Kong dollars, United States dollars or Euro. As at December 31, 2014 and 2015, a majority of the Groups' borrowings denominated in United States/Euro were swapped into Hong Kong dollars by cross currency swap contracts and a foreign exchange forward contract. Given this, management does not expect that there will be any significant currency risk associated with the Groups' borrowings. Certain portion of the cross currency swap and foreign exchange forward contracts outstanding as at December 31, 2015 with an aggregate notional contract amount of US$1,376 million (approximately HK$10,661 million) (2014: US$1,000 million (approximately HK$7,769 million)) and Euro200 million (approximately HK$1,665 million) (2014: nil) were designated or re-designated as cash flow hedges against foreign currency risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Groups ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following table details the Groups' exposure as 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	2014			**2015**		
	United States Dollars	Euro	Renminbi	**United States Dollars**	**Euro**	**Renminbi**
Trade receivables	1,053	54	106	**1,400**	**197**	**139**
Amounts due from related companies	–	–	11	**–**	**–**	**8**
Cash and cash equivalents	953	63	63	**546**	**37**	**94**
Trade payables	(975)	(59)	(40)	**(1,474)**	**(61)**	**(40)**
Amounts due to a related company	(94)	–	–	**(72)**	**–**	**–**
Short-term borrowings	(3,877)	–	–	**(3,879)**	**–**	**–**
Long-term borrowings	(7,618)	–	–	**(9,840)**	**(1,666)**	**–**
Gross exposure arising from recognized financial (liabilities)/assets	(10,558)	58	140	**(13,319)**	**(1,493)**	**201**
Net financial liabilities denominated in respective entities' functional currencies	(276)	(47)	(149)	**(202)**	**(52)**	**(212)**
Borrowings covered by cross currency swap and foreign exchange forward contracts designated as fair value or cash flow hedges	7,760	–	–	**9,840**	**1,666**	**–**
Overall net exposure	(3,074)	11	(9)	**(3,681)**	**121**	**(11)**

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

If the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant as at December 31, 2015, the profit after tax of the Groups for the year ended December 31, 2015 would have decreased/increased by approximately HK$31 million (2014: HK$26 million), mainly as a result of foreign exchange losses/gains on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2015 would have increased/decreased by approximately HK$98 million (2014: HK$39 million) mainly as a result of foreign exchange gains/losses on the short-term and long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

If the Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant as at December 31, 2015, there would be no material impact on the Groups' profit after tax for the year ended December 31, 2015.

If the Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant as at December 31, 2015, the profit after tax of the Groups for the year ended December 31, 2015 would have increased/decreased by approximately HK$5 million (2014: an immaterial amount), mainly as a result of foreign exchange gains/losses on translation of Euro denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2015 would have increased/decreased by approximately HK$83 million (2014: nil) mainly as a result of foreign exchange gains/losses on the short-term and long-term borrowings being hedged by cross currency swap and foreign exchange forward contracts.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred as at the end of the reporting periods and had been applied to the Groups' exposure to currency risk for recognized assets and liabilities in existence at the dates, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the periods until the 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 the years ended December 31, 2014 and 2015.

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk

As the Groups have no significant interest-bearing assets, the Groups' income and operating cash flows are substantially independent of changes in market interest rates.

The Groups' interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Groups to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Groups draw under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Groups entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from certain fixed rate long-term borrowings. During the year ended December 31, 2015, the Groups entered into floating-to-fixed swap contracts, therefore the Groups had a synthetic fixed to fixed cross-currency swap position and re-designated it as cash flow hedging instrument accordingly.

The following table details the interest rate profile of the Groups' borrowings as at the end of the reporting periods, after taking into account the effect of cross currency swap contracts designated as cash flow and fair value hedging instruments.

	2014		**2015**	
	Effective interest rate %	HK$ million	**Effective interest rate %**	**HK$ million**
Net fixed rate borrowings:				
Short-term borrowings with/without cash flow hedging instruments	5.42	3,877	**3.17**	**3,879**
Long-term borrowings with/without cash flow hedging instruments	3.17	3,924	**4.02**	**11,506**
Variable rate borrowings:				
Bank borrowings	1.56	24,931	**1.57**	**20,930**
Long-term borrowings with fair value hedging instruments	3.95	3,694	**–**	**–**
Total borrowings		36,426		**36,315**

If interest rates on Hong Kong dollar denominated borrowings had increased/decreased by 20 basis points as at December 31, 2015, (2014: 10 basis points) with all other variables held constant, the Groups' profit after tax for the year ended December 31, 2015 would have decreased/increased by approximately HK$27 million (2014: HK$20 million) mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred as at the end of the reporting periods and had been applied to the exposure to interest rate risk for the Groups' floating rate borrowings in existence at those dates. The 20 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the periods until the end of the next annual reporting period. The analysis is performed on the same basis for the years ended December 31, 2014 and 2015.

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

iii. Equity price risk

The Groups are exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (note 22) and financial assets at fair value through profit or loss (note 23). The investments are listed on a recognized stock exchange.

Given the insignificant portfolio of listed equity securities held by the Groups, management believes that the Groups' equity price risk is minimal.

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, 2014 and 2015 except as follows:

In HK$ million	2014		**2015**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Short-term borrowings	3,877	3,963	**3,879**	**3,890**
Long-term borrowings	32,549	32,757	**32,436**	**32,600**

The fair values of short-term and long-term borrowings are the net present value of the estimated future cash flows discounted at the borrowing rates. The fair values are within level 2 of the fair value hierarchy (see note 35(e)).

e. Estimation of fair values

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for asset or liability that are not based on observable market data (level 3).

35 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The following table presents the Groups' financial assets and liabilities that are measured at fair value:

In HK$ million	2014			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	61	–	–	61
Financial assets at fair value through profit or loss	39	–	–	39
Derivative financial instruments	–	49	–	49
Total assets	100	49	–	149
Liabilities				
Derivative financial instruments	–	(100)	–	(100)

In HK$ million	**2015**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets				
– Listed equity securities	**7**	**–**	**–**	**7**
Financial assets at fair value through profit or loss	**25**	**–**	**–**	**25**
Total assets	**32**	**–**	**–**	**32**
Liabilities				
Derivative financial instruments	**–**	**(443)**	**–**	**(443)**

The fair value of financial instruments traded in active markets is based on quoted market prices as at the end of the reporting periods. The quoted market price used for financial assets held by the Groups included in level 1 is the current bid price. Instruments included in level 1 comprise available-for-sale financial assets listed on the Alternative Investment Market operated by London Stock Exchange plc and financial assets at fair value through profit or loss listed on the Stock Exchange.

The fair value of financial instruments that are not traded in an active market is 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 flow discounted at the market quoted swap rates.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2014 and 2015.

f. Groups' valuation process

The Groups' finance department includes a team that performs the valuations of financial assets required for financial reporting purposes. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

36 COMMITMENTS

a. Capital

In HK$ million	2014	**2015**
Authorized and contracted for acquisition of property, plant and equipment	656	**635**

b. Operating leases

As at December 31, 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	2014	**2015**
Within 1 year	1,240	**1,023**
After 1 year but within 5 years	1,125	**807**
After 5 years	10	**3**
	2,375	**1,833**

Network capacity and equipment

In HK$ million	2014	**2015**
Within 1 year	1,283	**1,134**
After 1 year but within 5 years	744	**807**
After 5 years	264	**266**
	2,291	**2,207**

Majority of the leases typically run for a period of 1 to 9 years as at December 31, 2015 (2014: 1 to 11 years). None of the leases include contingent rentals.

36 COMMITMENTS *(CONTINUED)*

c. Others

As at December 31, 2015, the Groups have other outstanding commitments as follows:

In HK$ million	2014	**2015**
Operating expenditure commitment	2,177	**2,171**
	2,177	**2,171**

37 CONTINGENT LIABILITIES

In HK$ million	2014	**2015**
Performance guarantees	2,076	**2,108**
Tender guarantees	52	**–**
Guarantees given to banks in respect of credit facilities granted to an associate	62	**60**
Others	12	**5**
	2,202	**2,173**

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

38 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2015 was HK$26,671 million (2014: HK$29,377 million) of which the unused facilities amounted to HK$5,527 million (2014: HK$4,230 million).

All of the Groups' banking facilities are subject to the fulfillment of covenants relating to certain of the Groups' statement of financial position ratios, as are commonly found in lending arrangement with financial institutions. If the Groups were to breach the covenants the drawn down facilities would become payable on demand. The Groups regularly monitor their compliance with these covenants. As at December 31, 2015, none of the covenants relating to drawn down facilities was breached. Further details of the Groups' management of liquidity risk are set out in note 35(b).

Summaries of major borrowings are set out in notes 25(e) and 26.

39 BUSINESS COMBINATIONS

a. Business combinations during the year ended December 31, 2015

i. Acquisition of Keycom plc and its subsidiaries ("Keycom")

On April 7, 2015, the Groups acquired approximately 92.9% of the then issued ordinary share capital of Keycom plc and increased their interest to 100% by the end of June 2015 for a total consideration of approximately £16.6 million (approximately HK$196 million). Keycom plc is a company engaged in the design, development and delivery of communications and multimedia services via high-speed connectivity in the United Kingdom. A payment of approximately £16.3 million (approximately HK$192 million) has been made by the Groups as at December 31, 2015. The purpose of the acquisition is to expand the Groups' business to meet the growing demand for ubiquitous broadband connectivity through building resilient high availability wireless and wired network in the United Kingdom.

The Groups are 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 preparation of these consolidated financial statements, the Groups recorded the excess of the cost of acquisition over the estimated fair values of the acquired assets and liabilities as goodwill. This allocation of the purchase price to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2016 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 2016.

(i) Details of net assets acquired and goodwill in respect of the acquisition of Keycom at the acquisition date were as follows:

In HK$ million

	Net assets acquired and goodwill
Purchase consideration settled in cash	**166**
Consideration payable	**4**
Obligation assumed upon business combination	**26**
Aggregate purchase consideration	**196**
Less: Estimated fair value of net assets acquired	**(53)**
Goodwill on acquisition	**143**

The goodwill is attributable to the expected future profits generated from communications services via high-speed connectivity. As a result of the acquisition, the Groups are expected to grow and expand its broadband connectivity business in the United Kingdom via the strong, well-established business with a talented leadership team and employees of Keycom.

None of the goodwill is expected to be deductible for tax purposes.

39 BUSINESS COMBINATIONS *(CONTINUED)*

a. Business combinations during the year ended December 31, 2015 *(continued)*

i. Acquisition of Keycom plc and its subsidiaries ("Keycom") *(continued)*

(i) Details of net assets acquired and goodwill in respect of the acquisition of Keycom at the acquisition date were as follows: *(continued)*

The assets and liabilities of Keycom at the acquisition date were as follows:

In HK$ million	Estimated fair value
Property, plant and equipment	**56**
Intangible assets	**12**
Deferred income tax assets	**8**
Trade receivables, prepayments, deposits, and other current assets	**17**
Cash and cash equivalents	**1**
Trade payables, accruals and other payables	**(30)**
Advances from customers	**(11)**
Net assets acquired	**53**

In HK$ million	Net cash outflow
Purchase consideration settled in cash	**166**
Settlement of obligation assumed upon business combination	**26**
	192
Cash and cash equivalents acquired	**(1)**
Total net cash outflow for the year ended December 31, 2015	**191**

(ii) Acquisition-related costs

Acquisition-related costs of approximately HK$5 million were included in the consolidated income statement for the year ended December 31, 2015.

(iii) Revenue and profit contribution

Keycom's revenue and loss attributable to shareholders for the period from January 1, 2015 to the acquisition date were HK$24 million and HK$2 million, respectively. The business of Keycom has been integrated into the Groups since the acquisition date. Accordingly, it is not practical to quantify the individual contribution of Keycom to the revenue and profit of the Groups during the year ended December 31, 2015 on any reasonable basis.

ii. Acquisition of Syntelligence Ltd

On May 26, 2015, the Groups completed the acquisition of the entire issued share capital of Syntelligence Ltd, a private company incorporated in the United Kingdom. The acquiree's platform offers a complete solution for the delivery of cloud communications services to enterprises and service providers. The acquisition aims at expanding the Groups' offerings in unified communications for enterprises and service providers worldwide. The aggregate consideration was not material to the Groups.

39 BUSINESS COMBINATIONS *(CONTINUED)*

b. Business combinations during the year ended December 31, 2014

i. Acquisition of CSL Holdings Limited and its subsidiaries (together the "CSL Group")

On May 14, 2014, the Groups 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 aggregate consideration was approximately US$2,585 million (approximately HK$20,054 million) which was recognized in the accounts for the acquisition.

The Groups are 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 has been finalized. The initial accounting for the acquisition of the CSL Group was completed as at May 14, 2015. In completing the initial accounting, an addition of HK$37 million of goodwill has been recorded compared to the provisional amount previously disclosed as a result of additional information with respect to the finalization of the contingent consideration payable.

(i) Details of net assets acquired and goodwill in respect of acquisitions of the CSL Group at the acquisition date were as follows:

In HK$ million

	Net assets acquired and goodwill
Aggregate purchase consideration	**20,054**
Less: Fair value of net assets acquired	**(6,402)**
Goodwill on acquisition	**13,652**

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.

39 BUSINESS COMBINATIONS *(CONTINUED)*

b. Business combinations during the year ended December 31, 2014 *(continued)*

i. Acquisition of CSL Holdings Limited and its subsidiaries (together the "CSL Group") *(continued)*

(i) Details of net assets acquired and goodwill in respect of acquisitions 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	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 during 2014	**19,943**
Settled in cash during 2015	**77**
	20,020
Cash and cash equivalents acquired	**(1,186)**
	18,834

(ii) Revenue and profit contribution

CSL Group's revenue and profit attributable to equity holders of the Company for the period from January 1, 2014 to the acquisition date were HK$2,942 million and HK$371 million, respectively. The business of the CSL Group has been integrated into the Groups 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 Groups during the year ended December 31, 2014 on any reasonable basis.

ii. Acquisition of Crypteia Networks S.A.

On October 20, 2014, the Groups 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 Groups as a leading network security player in the market. The aggregate consideration was not material to the Groups.

40 DISPOSAL OF INTERESTS IN A SUBSIDIARY

On October 14, 2014, the Groups entered into a sale and purchase agreement pursuant to which the Groups have agreed to sell its entire equity interest in Zhong Ying JV, an indirect non-wholly owned subsidiary of the Company, to an independent third party for an aggregated consideration of RMB$180 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 Zhong Ying JV at the date of disposal were as follows:

In HK$ million

	Net assets disposed of and the gain
Consideration received from disposal of interests in Zhong Ying JV	**225**
PRC withholding tax	**(14)**
Carrying amount of net assets disposed of	**(199)**
Direct expenses in relation to disposal	**(36)**
Exchange differences on translating foreign operations transferred to consolidated income statement upon disposal	**79**
Gain on disposal recognized in the consolidated income statement *(note 9)*	**55**

The assets and liabilities of Zhong Ying JV at the date of disposal were as follows:

In HK$ million

	Note	**Carrying amount**
Property, plant and equipment	16	**5**
Inventories		**117**
Prepayments, deposits and other current assets		**58**
Trade receivables, net		**234**
Cash and cash equivalents		**191**
Advance from customers		**(177)**
Trade payables, accruals and other payables		**(98)**
Current income tax liabilities		**(7)**
		323
Non-controlling interests		**(124)**
Net assets disposed of		**199**

In HK$ million

	Net cash inflow
Consideration received in cash, net of PRC withholding tax	**211**
Cash and cash equivalents of Zhong Ying JV disposed of	**(191)**
	20

41 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2015

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, 2015 and which have not been early adopted in these financial statements:

		Effective for accounting periods beginning on or after
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HKFRS 15	Revenue from Contracts with Customers	January 1, 2018
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
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The Groups are in the process of making an assessment of what the impact of these amendments, new or revised standards, new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards, 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, 2015

Results In HK$ million	2011	2012	2013	2014	**2015**
Revenue by Principal Activity					
Telecommunications Services	16,357	17,348	18,773	19,309	**20,205**
Mobile	2,658	3,049	3,371	8,950	**14,317**
Other businesses	810	684	688	564	**207**
	19,825	21,081	22,832	28,823	**34,729**
Cost of sales	(8,149)	(9,027)	(10,117)	(12,053)	**(15,539)**
General and administrative expenses	(8,510)	(9,073)	(9,501)	(12,416)	**(13,287)**
Other (losses)/gains, net	(28)	18	84	151	**18**
Finance costs, net	(1,504)	(805)	(833)	(1,124)	**(1,310)**
Share of results of equity accounted entities	(19)	(79)	50	(81)	**(25)**
Profit before income tax	1,615	2,115	2,515	3,300	**4,586**
Income tax	(344)	(455)	(16)	(242)	**(600)**
Profit for the year	1,271	1,660	2,499	3,058	**3,986**
Attributable to:					
Holders of Share Stapled Units/shares of the Company	1,221	1,610	2,460	2,991	**3,949**
Non-controlling interests	50	50	39	67	**37**

Assets and Liabilities As at 31 December in HK$ million	2011	2012	2013	2014	**2015**
Total non-current assets	56,854	56,810	56,348	77,542	**77,570**
Total current assets	8,184	9,563	9,471	12,258	**12,347**
Total current liabilities	(6,862)	(16,005)	(7,157)	(14,415)	**(14,778)**
Total non-current liabilities	(27,243)	(19,251)	(27,857)	(37,346)	**(37,404)**
Net assets	30,933	31,117	30,805	38,039	**37,735**

During the year ended December 31, 2014, the Groups completed an internal reorganization in connection with the acquisition of the CSL Group. As a result, management has made changes to the Groups' internal reporting that caused changes to reportable segments and segment presentation. The prior year ended December 31, 2013 segment information has been restated to conform with the revised presentation.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SOLE SHAREHOLDER OF HKT MANAGEMENT LIMITED
(香港電訊管理有限公司)
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of HKT Management Limited (the "Company") set out on pages 170 to 178, which comprise the statement of financial position as at December 31, 2015, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 25, 2016

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

INCOME STATEMENT OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2015

In HK$'000	Note	2014	**2015**
Management fee income		45	**89**
General and administrative expenses		(45)	**(47)**
Profit before income tax	5	–	**42**
Income tax	6	–	**–**
Profit for the year		–	**42**

The notes on pages 175 to 178 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2015

In HK$'000	2014	**2015**
Profit for the year	–	**42**
Other comprehensive income	–	**–**
Total comprehensive income for the year	–	**42**

The notes on pages 175 to 178 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF HKT MANAGEMENT LIMITED

As at December 31, 2015

In HK$'000	Note	2014	**2015**
ASSETS AND LIABILITIES			
Current assets			
Amount due from a fellow subsidiary	4(c)	84	**174**
		84	**174**
Current liabilities			
Accruals and other payables		82	**127**
Amount due to a fellow subsidiary	4(c)	44	**47**
		126	**174**
Net liabilities		(42)	**–**
CAPITAL AND RESERVES			
Share capital	7	–	**–**
Deficit		(42)	**–**
Total equity		(42)	**–**

Approved and authorized for issue by the board of directors (the "Board") on February 25, 2016 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 175 to 178 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2015

In HK$'000	2014		
	Share capital	Deficit	Total
As at January 1, 2014	–	(42)	(42)
Comprehensive income			
Profit for the year	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	–	–
Transactions with the equity holder of the Company	–	–	–
As at December 31, 2014	–	(42)	(42)

In HK$'000	**2015**		
	Share capital	**(Deficit)/ Retained profit**	**Total**
As at January 1, 2015	**–**	**(42)**	**(42)**
Comprehensive income			
Profit for the year	**–**	**42**	**42**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**42**	**42**
Transactions with the equity holder of the Company	**–**	**–**	**–**
As at December 31, 2015	**–**	**–**	**–**

The notes on pages 175 to 178 form part of these financial statements.

STATEMENT OF CASH FLOWS OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2015

In HK$'000	2014	**2015**
Operating activities		
Profit before income tax	–	**42**
Adjustments for:		
Increase in amount due from a fellow subsidiary	(45)	**(90)**
Increase in accruals and other payables	2	**45**
Increase in amount due to a fellow subsidiary	43	**3**
Net cash generated from operating activities	–	**–**
Investing activities		
Net cash used in investing activities	–	**–**
Financing activities		
Net cash used in financing activities	–	**–**
Net change in cash and cash equivalents	–	**–**
Cash and cash equivalents		
Beginning of year	–	**–**
End of year	–	**–**

The notes on pages 175 to 178 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF HKT MANAGEMENT LIMITED

December 31, 2015

1 GENERAL INFORMATION

HKT Management Limited (the "Company") was incorporated in Hong Kong under the Companies Ordinance on June 14, 2011. Its registered office is located at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. The Company is an indirect wholly-owned subsidiary of PCCW Limited, the shares of which are listed on the Stock Exchange of Hong Kong Limited.

The Company has a limited and specific role, which is to administer the HKT Trust.

The financial statements are presented in thousands units of Hong Kong dollars (HK$'000), which is the presentation and functional currency of the Company, unless otherwise stated.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with all applicable 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 significant accounting policies adopted by the Company is set out below.

b. Basis of preparation of the financial statements

The Company has not adopted any new standard or interpretation that is not effective for the current accounting period, details of which are set out in note 10.

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 note 7.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the financial statements.

The measurement basis used in the preparation of the financial statements is historical cost basis.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 3.

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

c. Impairment of assets

Internal and external sources of information are reviewed at each statement of financial position date to identify indications that the following assets may be impaired or, an impairment loss previously recognized no longer exists or may have decreased.

– intercompany receivables

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

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

d. Related parties

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

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

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

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

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

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company has no accounting estimates and judgements that would significantly affect its results and financial position.

4 RELATED PARTY TRANSACTIONS

During the year, the Company had the following significant transaction with a related party:

In HK$'000	2014	**2015**
Management fee refund from a fellow subsidiary	45	**89**

a. This transaction was carried out after negotiations between the Company and the related party in the ordinary course of business and on the basis of estimated market value as determined by the directors.

b. The directors' emoluments of the Company were borne by a fellow subsidiary of the Company for the years ended December 31, 2014 and 2015.

c. The balance with a fellow subsidiary is unsecured, non-interest bearing and receivable on demand.

5 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

In HK$'000	2014	**2015**
Charging:		
Auditor's remuneration	43	**45**

6 INCOME TAX

No Hong Kong profits tax has been provided as the Company does not have any assessable profit during the years ended December 31, 2014 and 2015.

No deferred income tax asset and liability was recognized as at December 31, 2014 and 2015.

7 SHARE CAPITAL

	2014		**2015**	
	Number of Shares	Value HK$	**Number of Shares**	**Value HK$**
Issued and fully paid:				
Ordinary shares of HK$1 each				
Beginning and end of year	1	1	**1**	**1**

8 CAPITAL MANAGEMENT

The Company has a specific and limited role to administer the HKT Trust. It is not actively engaged in running the telecommunications business which is managed by HKT Limited, a fellow subsidiary of the Company, and the operating subsidiaries of HKT Limited. Therefore, the Company is not subject to externally imposed capital requirements.

9 FINANCIAL INSTRUMENTS

As the principal activity of the Company is to administer the HKT Trust, the Company is not exposed to market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. Risk management is carried out under policies approved by the Board of Directors.

10 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED DECEMBER 31, 2015

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, 2015 and which have not been adopted in these financial statements:

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CORPORATE INFORMATION

HKT LIMITED

(incorporated in the Cayman Islands with limited liability)

BOARD OF DIRECTORS

Executive Directors

Li Tzar Kai, Richard *(Executive Chairman)*
Alexander Anthony Arena *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*

Non-Executive Directors

Peter Anthony Allen
Chung Cho Yee, Mico
Lu Yimin
Li Fushen
Srinivas Bangalore Gangaiah (aka BG Srinivas)

Independent Non-Executive Directors

Professor Chang Hsin Kang, FREng, GBS, JP
Sunil Varma
Aman Mehta
Frances Waikwun Wong

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Grace M.Y. Lee

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

39th Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

SHARE STAPLED UNITS INFORMATION

Board lot:	1,000 units
Issued units as at December 31, 2015:	7,571,742,334 units

DISTRIBUTION

Distribution per share stapled unit for the year ended December 31, 2015:

Interim	25.79 HK cents
Final	28.27 HK cents

FINANCIAL CALENDAR

Announcement of 2015 Annual Results	February 25, 2016
Closure of books	May 11 – 12, 2016 (both days inclusive)
Record date for 2015 final distribution	May 12, 2016
Payment of 2015 final distribution	On or around May 26, 2016
2016 Annual General Meeting	May 5, 2016

INVESTOR RELATIONS

For more information, please contact Investor Relations at:
Telephone: +852 2514 5084
Email: ir@hkt.com

HKT MANAGEMENT LIMITED

(incorporated in Hong Kong with limited liability)

(THE TRUSTEE-MANAGER OF THE HKT TRUST)

BOARD OF DIRECTORS

Executive Directors

Li Tzar Kai, Richard *(Executive Chairman)*
Alexander Anthony Arena *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*

Non-Executive Directors

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Sunil Varma
Aman Mehta
Frances Waikwun Wong

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Grace M.Y. Lee

REGISTERED OFFICE

39th Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

SHARE STAPLED UNITS REGISTRAR AND HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

LISTING

The share stapled units of the HKT Trust and HKT Limited are listed on The Stock Exchange of Hong Kong Limited. Certain guaranteed notes issued by subsidiaries of HKT Limited are listed on the Singapore Exchange Securities Trading Limited and the Taipei Exchange in Taiwan, China.

STOCK CODES

The Stock Exchange of Hong Kong Limited	6823
Reuters	6823.HK
Bloomberg	6823 HK

WEBSITE OF HKT LIMITED

www.hkt.com

ANNUAL REPORT 2015

This Annual Report 2015 in both English and Chinese is now available in printed form from HKT Limited, HKT Management Limited and the Share Stapled Units Registrar, and in accessible format on the websites of HKT Limited (www.hkt.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Holders of share stapled units who:

A) received the Annual Report 2015 using electronic means through the website of HKT Limited may request a printed copy, or
B) received the Annual Report 2015 in either English or Chinese may request a printed copy of the other language version

by writing or sending email to HKT Limited and/or
HKT Management Limited c/o the Share Stapled Units 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 2865 0990
Email: hkt@computershare.com.hk

Holders of share stapled units who have chosen (or are deemed to have agreed) to receive the corporate communications of the HKT Trust, HKT Limited and HKT Management Limited (including but not limited to the Annual Report 2015) using electronic means through the website of HKT Limited and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2015 will promptly, upon request in writing or by email to the Share Stapled Units Registrar, be sent the Annual Report 2015 in printed form, free of charge.

Holders of share stapled units may change their choice of language and/or means of receipt of future corporate communications of the HKT Trust, HKT Limited and HKT Management Limited at any time, free of charge, by reasonable prior notice in writing or by email to the Share Stapled Units Registrar.

Forward-Looking Statements

This annual report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict”, “is confident”, “has confidence” and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of HKT about the business, industry and markets in which we operate.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- increased competition in the Hong Kong telecommunications market;
- possible negative effects of potentially new legislation, regulations, guidelines, decisions or directives;
- possible negative effects of potentially new regulatory developments;
- our ability to implement our business plan as a consequence of our substantial debt;
- our exposure to interest rate risk;
- our ability to obtain additional capital; and
- our ability to execute our business strategy, including our ability to enter into business combinations and restructuring, strategic investments and acquisitions and challenges in growing business organically.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of HKT as at the date of this annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

HKT Trust (A trust constituted on November 7, 2011 under the laws of Hong Kong and managed by HKT Management Limited)
and
HKT Limited (Incorporated in the Cayman Islands with limited liability)

Principal Place of Business in Hong Kong:
39/F, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
T: +852 2888 2888 F: +852 2877 8877 www.hkt.com

The Share Stapled Units are listed on The Stock Exchange of Hong Kong Limited (SEHK: 6823).

This report is printed on environmentally friendly paper manufactured from elemental chlorine-free and acid-free pulp.