HKT®

# Annual Report 2016

*Stock Code: 6823*


a PCCW Group member

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# 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 18,900 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 2016

## FEBRUARY

HKT reports financial results for the year ended December 31, 2015.

## MARCH

CSL and CTM in Macau jointly launch "Call Macau Home Pass" for customers to use mobile voice, data and Wi-Fi while in Macau.


NETVIGATOR and Now TV jointly launch Now One, a 4K all-in-one appliance.


PCCW Global becomes a MEF 100G CE 2.0 certified service provider, demonstrating its ability to support challenging network demands.

## APRIL

HKT education becomes the first virtual reality (VR) solutions provider in Hong Kong for Hong Kong and Macau schools with Google Cardboard.

PCCW Global signs a MoU with other partners on the construction of "Africa-1" submarine cable system connecting Africa with the Middle East, South Central Asia and Europe.

## MAY

HKT is named Best Asian Telecoms Carrier and Best Broadband Carrier at Telecom Asia Awards 2016.

## AUGUST

HKT reports financial results for the six months ended June 30, 2016.

The Club is named the title sponsor of "The Club PL Junior", a Hong Kong Football Association activity for children.

HKT has formed a joint venture, Smart Charge (HK) Limited, with CLP Holdings Limited to offer electric vehicle charging solutions.


PCCW Global and Alibaba Cloud expand strategic cooperation to protect businesses against cyber attacks.

HKT Payment Limited, which operates Tap & Go mobile payment service, is granted a Stored Value Facilities licence.

## SEPTEMBER

HKT completes the integration of the core mobile networks.

## OCTOBER

HKT is the title sponsor of the Formula E HKT Hong Kong ePrix.


csl's "Hit the BIG time on a BIG network" campaign wins Gold Award in the HKMA/TVB Awards for Marketing Excellence 2016.

## NOVEMBER

SynCab taxi passengers can use Tap & Go to pay taxi fares.


PCCW Global cooperates with the Djibouti Data Center on pan-African expansion.

HKT announces to construct Ultra Express Link, a super high capacity fiber optic cable connecting Tseung Kwan O Industrial Estate and Chai Wan.

## DECEMBER

HKT and parent company PCCW receive an award for the highest service hours of volunteer services from the Social Welfare Department. HKT has participated in various community events such as the "Free Ride Day" organized by Hong Kong General Chamber of Commerce.

# AWARDS

| Award | Awardee | Scheme Organizer |
|---|---|---|
| 15-year QTS Merchant Recognition | HKT | Hong Kong Tourism Board |
| 48th Distinguished Salesperson Award Programme | | The Hong Kong Management Association |
| • Distinguished Salesperson Award | HKT, 1O1O, csl staff members | |
| • Outstanding Young Salesperson Award | 1O1O staff member | |
| AfricaCom Awards 2016 | | Informa Telecoms & Media |
| • Best Network Improvement Award | PCCW Global | |
| Award of 10,000 Hours for Volunteer Service | Volunteer team of HKT and PCCW | Steering Committee on Promotion of Volunteer Service, Social Welfare Department |
| 2016 "Bauhinia Awards" Hospitable Hong Kong – Remarkable Business Contribution Award | | CNC Holdings Limited |
| • Telecommunication Industry – Gold Bauhinia Award | csl | |
| Best Loved Brands Awards 2015 | | RoadShow |
| • Home Broadband Service | NETVIGATOR | |
| Best Loved Brands Awards 2016 | | RoadShow |
| • Home Broadband Services | NETVIGATOR | |
| • Smart Living Services | Smart Living | |
| Best of IT Award 2015 | | *PCM* |
| • My Favorite Broadband Service Award | NETVIGATOR | |
| • My Favorite Mobile Service Provider Award | csl | |
| • The Best Business Network Award | HKT | |
| Best of the Best Choice for Executive 2016 | | *CAPITAL* |
| • Telecommunications | 1O1O | |
| CAHK STAR Awards 2016 | | Communications Association of Hong Kong |
| • The Best Brand Campaign – Gold | csl | |
| • The Best Fixed Network Operator – Gold | HKT | |
| • The Best International Carrier – Silver | PCCW Global | |
| • The Best Mobile Network Operator – Silver | 1O1O | |

PCCW Global receives the Best Network Improvement Award at the AfricaCom Awards 2016.

At the Best Loved Brands Awards 2016, NETVIGATOR wins the Home Broadband Services award.

| Award | Awardee | Scheme Organizer |
|---|---|---|
| Capacity Africa Carrier Awards 2016<br>• Best West African Wholesale Carrier | <br>PCCW Global | Capacity Media |
| CAPITAL WEEKLY Service Awards 2016<br>• Telecom Service | <br>1O1O | *CAPITAL WEEKLY* |
| Caring Company Logo | HKT | The Hong Kong Council of Social Service |
| Carriers World Awards 2016<br>• Technology Innovation Award | <br>PCCW Global | Total Telecom |
| CarbonCare® Action Label 2016 | HKT | Carbon Care Asia |
| CLP GREEN$^{PLUS}$ Award 2016<br>• Silver Award | <br>HKT | CLP |
| Cloud Excellence Awards 2016<br>• Best Hybrid Cloud Service | <br>HKT Enterprise Cloud | *Computerworld Hong Kong* |
| Computerworld Hong Kong Awards 2016<br>• Corporate Mobile Services Provider<br>• Mobile Device Management (MDM)<br>• Infrastructure-as-a-Service Provider<br>• Local Data & Telecoms Service Provider | <br>1O1O<br><br>HKT Enterprise Cloud<br>HKT | *Computerworld Hong Kong* |
| Corporate and Employee Contribution Programme – Bronze Award | HKT | Community Chest |
| Customer Service Excellence Award 2015<br>• Individual Award – Contact Centre Service – Bronze Award<br>• Individual Award – Counter Service – Bronze Award | <br>HKT staff members | Hong Kong Association for Customer Service Excellence |
| e-brand Awards 2016<br>• The Best of Business Wi-Fi Solution<br>• The Best of Broadband Solutions<br>• The Best of SME Cloud Solutions<br>• The Best of Telecommunication Network Service Provider<br>• The Best of Residential Fiber Broadband Service<br>• The Best of Smart Living Brand<br>• The Best of Social Media Marketing<br>• The Best of Telecommunication Service | <br>HKT<br><br><br><br><br>NETVIGATOR<br>Smart Living<br>csl | *e-Zone* |

Smart Living wins the Best of Smart Living Brand at the e-brand Awards 2016.

| Award | Awardee | Scheme Organizer |
|---|---|---|
| e Media Plus Outstanding Digital Awards 2016<br>• The Best Online Promotion (Telecommunications) Award<br>• The Best Social Media (Telecommunications) Award<br>• The Next Mobile App (Telecommunications) Award | csl | e Media Plus, *eWeekly*, *Metro Daily* and *Metro Prosperity* |
| Elite Awards 2015<br>• Mobile Network Service Operators | csl | *MP Weekly* |
| ERB Manpower Developer Award Scheme<br>• Manpower Developers 2016-18 | csl | Employees Retraining Board |
| 2015–2016 Excellent Smiling Staff Award | csl shop staff member | Mystery Shopper Service Association |
| Friends of EcoPark Award | csl, 1010 | Environmental Protection Department |
| Global Carrier Awards 2016<br>• Best Unified Communications Innovation Award | PCCW Global | Capacity Media |
| 2015 Gold Award for Volunteer Service<br>• Organization | Volunteer team of HKT and PCCW | Steering Committee on Promotion of Volunteer Service, Social Welfare Department |
| GTB Innovation Awards 2016<br>• Consumer Service Innovation | PCCW Global | Global Telecoms Business |
| HK50+ Award<br>• Best of the Best Award<br>• Telecommunication Category | csl | Christian Family Service Centre |
| HKIA Customer Service Excellence Programme 2016<br>• Individual Excellence Award – Certificate of Appreciation | csl and 1010 staff members | Airport Authority Hong Kong |
| HKIM Market Leadership Award 2015<br>• Market Leadership in Telecommunications | HKT | Hong Kong Institute of Marketing |
| HKMA/TVB Awards for Marketing Excellence 2016<br>• Best Presentation Award<br>• Campaign Awards – Gold Award | csl | The Hong Kong Management Association |

At the HKMA/TVB Awards for Marketing Excellence 2016, csl wins the Best Presentation Award and the Campaign Awards – Gold Award.

| Award | Awardee | Scheme Organizer |
|---|---|---|
| HKRMA Mystery Shopper Program | | Hong Kong Retail Management Association |
| • HKRMA 20th Anniversary MSP Special Award – The-Most-Award-Winning Brand Award – Bronze<br>• 2016 Service Retailers of the Year – Category Award – Telecommunications Category | 1O1O | |
| Hong Kong Call Centre Association Awards 2016 | | Hong Kong Call Centre Association |
| • Best Individual Category Achievement<br>• Best Contact Centre in Omni-channel Deployment – Silver<br>• Best Contact Centre in Training and People Development – Bronze | HKT Consumer Group | |
| • Best Contact Centre Campaign – Bronze | HKT Consumer Group – Core Value – B.E.P. Inspires the CCS | |
| • Best Contact Centre in Corporate Social Responsibility – Silver<br>• Best Contact Centre in Quality Assurance – Bronze | HKT Consumer Group – Process Planning Team | |
| • Best Contact Centre in Quality Assurance – Silver<br>• Inbound Contact Centre of the Year (Over 50 Seats) – Bronze<br>• Inbound Contact Centre of the Year (20–50 Seats) – Bronze | HKT Engineering | |
| • Best Contact Centre in Technology Application – Silver | HKT Consumer Group – Integrated Customer Portfolio View and Process Management System | |
| • Inbound Contact Centre of the Year (Over 50 Seats) – Bronze | HKT Consumer Group – NETVIGATOR Customer Service Hotline | |
| • Inbound Contact Centre of the Year (Below 20 Seats) – Bronze | HKT Consumer Group – Appointment Related Enquiry Hotline | |
| • Inbound Contact Centre of the Year (Below 20 Seats) – Bronze<br>• Mystery Caller Assessment Award – Telecommunications (Phone-in Assessment) – Gold | HKT Consumer Group – Smart Living Dedicated Hotline | |

HKT sweeps a total of 47 awards, including 30 corporate and 17 individual awards, at the Hong Kong Call Centre Association Awards 2016.

| Award | Awardee | Scheme Organizer |
|---|---|---|
| • Mystery Caller Assessment Award – Telecommunications (On-site Assessment) – Best-in-Class | HKT Consumer Group – NETVIGATOR Broadband Upgrade Hotline | |
| • Mystery Caller Assessment Award – Telecommunications (On-site Assessment) – Gold | | |
| • Mystery Caller Assessment Award – Telecommunications (On-site Assessment) – Gold | 1010 Corporate Account Service | |
| • Mystery Caller Assessment Award – Telecommunications (On-site Assessment) – Gold | HKT Consumer Group – Fixed Line Customer Service | |
| • Mystery Caller Assessment Award – Telecommunications (On-site Assessment) – Gold | HKT Consumer Group – Fixed Line Technical Support | |
| • Mystery Caller Assessment Award – Telecommunications (On-site Assessment) – Gold | HKT Consumer Group – NETVIGATOR Customer Service | |
| • Mystery Caller Assessment Award – Telecommunications (On-site Assessment) – Gold | HKT Consumer Group – Now TV Technical Support | |
| • Mystery Caller Assessment Award – Telecommunications (On-site Assessment) – Gold | HKT Engineering – Diamond Commercial Contact Centre | |
| • Mystery Caller Assessment Award – Telecommunications (On-site Assessment) – Gold | HKT Engineering – Enterprise Contact Centre | |
| • Mystery Caller Assessment Award – Telecommunications (Phone-in Assessment) – Gold | HKT Consumer Group – Language Center | |
| • Mystery Caller Assessment Award – Telecommunications (Phone-in Assessment) – Gold | HKT Consumer Group – Now TV Call Centre Sales | |
| • Off-shore Contact Centre of the Year – Bronze | HKT Consumer Group – eye Sales Hotline | |
| • Outbound Contact Centre of the Year (20-50 Seats) – Gold | HKT Consumer Group – NETVIGATOR Outbound Sales | |
| • Outbound Contact Centre of the Year (Below 20 Seats) – Silver | HKT Consumer Group – IDD Outbound Sales | |
| • Outbound Contact Centre of the Year (Below 20 Seats) – Silver | HKT Consumer Group – LTS Retention Outbound | |
| • Outbound Contact Centre of the Year (Below 20 Seats) – Silver | HKT Consumer Group – NETVIGATOR Proactive Retention | |

| Award | Awardee | Scheme Organizer |
| --- | --- | --- |
| • Contact Centre Quality Assurance Professional of the Year – Gold<br>• Contact Centre Quality Assurance Professional of the Year – Bronze<br>• Contact Centre Technical Support Professional of the Year – Silver<br>• Contact Centre Trainer of the Year – Gold<br>• Contact Centre Workforce Management Professional of the Year – Bronze<br>• Inbound Contact Centre Manager of the Year – Silver<br>• Inbound Contact Centre Team Leader of the Year – Merit<br>• Inbound Contact Centre Representative of the Year – Silver<br>• Inbound Contact Centre Representative of the Year – Merit<br>• Multi Media Contact Centre Representative of the Year – Gold<br>• Outbound Contact Centre Team Leader of the Year – Silver<br>• Outbound Contact Centre Team Leader of the Year – Merit<br>• Outbound Contact Centre Representative of the Year – Silver | HKT Consumer Group staff members | |
| • Inbound Contact Centre Manager of the Year – Bronze<br>• Inbound Contact Centre Manager of the Year – Merit<br>• Inbound Contact Centre Manager of the Year – Merit | HKT Teleservices staff members | |
| • Inbound Contact Centre Team Leader of the Year – Merit | HKT Engineering staff member | |
| Hong Kong Digital Brand Awards 2016<br>• Outstanding Cloud Computing Applications<br>• Outstanding Fiber Optic Broadband Service<br>• Outstanding Mobile Network<br>• Outstanding Smart Home Service | <br>NETVIGATOR<br><br>csl<br>Smart Living | The Chamber of Hong Kong Computer Industry and Metro Radio |
| Hong Kong Service Awards 2016<br>• Distinguished Achievement Awards<br><br>• Internet Service Provider<br>• Long Distance Call<br>• Telecommunications | <br>IDD 0060<br>NETVIGATOR<br>NETVIGATOR<br>IDD 0060<br>csl | *East Week* |

| Award | Awardee | Scheme Organizer |
|---|---|---|
| iChoice Awards 2016<br>• Supreme Marketing Award (Digital)<br>• The Most Favourite High-speed LTE Mobile Operator<br>• The Most Favourite Mobile Operator | csl | Discuss |
| Internet Finance Award 2016<br>• Emerging Internet Finance Company | HKT Payment | Internet Professional Association, Hong Kong Internet Finance Association and Shenzhen Internet Finance Association |
| Market Leadership Award 2015<br>• Market Leadership in Telecommunications | HKT | Hong Kong Institute of Marketing |
| MEF Excellence Awards 2016<br>• Wholesale Service Provider of the Year – Global | PCCW Global | Metro Ethernet Forum |
| Merit of Highest Service Hour Award 2015 (Private Organisations – Category 1) | Volunteer team of HKT and PCCW | Steering Committee on Promotion of Volunteer Service, Social Welfare Department |
| Metro Award for Service Excellence 2016<br>• Excellence in Business Broadband Network Service Supplier<br>• Excellence in Mobile Network Communication Services | HKT<br>1010 | *Metro Daily & Metro Prosperity* |
| Metro Creative Awards 2016<br>• The Best Creative Ad<br>• The Best Creative Ad | csl<br>NETVIGATOR | *Metro Daily* |


Volunteer team of HKT and PCCW receives an award for volunteer service hours from the Social Welfare Department for the 15th straight year.

| Award | Awardee | Scheme Organizer |
|---|---|---|
| Mob-Ex Awards 2016<br>• Best Corporate Mobile Partner | <br>1O1O | *Marketing Magazine* |
| Metro Awards For Brand Excellence 2015<br>• Best Lifestyle Product<br>• Best Residential Broadband Service<br>• Telecommunication | <br><br>Smart Living<br>NETVIGATOR<br>csl | *Metro Daily & Metro Prosperity* |
| Power Smart Energy Saving Contest 2015<br>• Biggest Unit Saver Award (Organization) – 2nd Runner Up | <br>HKT | Friends of the Earth (HK) |
| Registrar of The Year 2015 | HKT | Hong Kong Internet Registration Corporation Limited |
| 2016 Retail and Service Star Awards<br>• Cordial Attitude Award<br>• Merit Award | <br>csl shop staff members<br>HKT, csl and 1O1O shop staff members | *Face – Job Finder* |
| RingHK HK Gadget Award 2015<br>• Best Mobile Service Provider 2015<br>• Most Popular Mobile Service Provider | <br>csl | RingHK |
| 2015-16 Save Energy Mission<br>• Bronze Award | <br>HKT | Friends of the Earth (HK) |
| 2015-16 Save Resources Mission<br>• Gold Award | <br>HKT | Friends of the Earth (HK) |
| Service & Courtesy Award 2016<br>• Company Award – The Potential Brand Award – Gold Award<br>• Individual Award – Supervisory Level – Telecommunications<br>• Individual Award – Junior Frontline Level – Telecommunications<br>• Individual Award – Outstanding Performance Award – Telecommunications | <br>HKT Service Center<br><br>csl staff members<br><br><br><br>HKT and 1O1O staff members | Hong Kong Retail Management Association |
| Sing Tao Services Awards 2015<br>• Quality of Lifestyle<br>• Telecom Service Provider | <br>NETVIGATOR<br>csl | *Sing Tao Daily* |

| Award | Awardee | Scheme Organizer |
|---|---|---|
| Smart Parents' Choice – Brand Awards 2016 | | *Smart Parents* |
| • Mobile Service Family Plan | csl | |
| SMBWorld Awards 2016 | | *SMBWorld* |
| • Best SMB Cloud Storage | HKT | |
| • Best SMB Partner (Retail Solutions) | | |
| • Tech Company of the Year (SMB Market) | | |
| • Business Internet Broadband | | |
| • Best SMB Partner (e-Payment Solutions) | HKT Payment | |
| • Corporate Mobile Service Provider | 1O1O | |
| 2015-2016 Smiling Enterprise Award | | Mystery Shopper Service Association |
| • Mobile | 1O1O | |
| 2015-2016 Smiling Staff Award | HKT and csl shop staff members | Mystery Shopper Service Association |
| Social Capital Builder Logo Awards | HKT | Community Investment and Inclusion Fund of the Labour and Welfare Bureau |
| Telecom Asia Awards 2016 | | Telecom Asia |
| • Best Asian Telecoms Carrier | HKT | |
| • Best Broadband Carrier | | |
| Telecom Review Awards 2016 | | Telecom Review |
| • Best Asian Wholesale Operator | PCCW Global | |
| Telecoms World Middle East Awards 2016 | | Terrapin |
| • Best International Wholesale Carrier | PCCW Global | |
| Tiptop Service Award 2015-2016 | | Tiptop Consultants Ltd. |
| • Persistently Outstanding Service Company Award | HKT | |
| • Persistently Outstanding Service Outlet Award | HKT Customer Service Center | |


HKT wins the Best Asian Telecoms Carrier award and the Best Broadband Carrier award at the Telecom Asia Awards 2016.

| Award | Awardee | Scheme Organizer |
|---|---|---|
| The 7th HK Outstanding Corporate Citizenship Bronze Award – Volunteer Team | Volunteer team of HKT and PCCW | Hong Kong Productivity Council |
| The 16th CAPITAL Outstanding Enterprise Awards<br>• Outstanding Fixed Telecommunications Network Service Provider | <br>HKT | *CAPITAL* |
| The Best SME Partners 2016<br>• ICT Service Provider<br>• Internet Service Provider<br>• Mobile Communications Service Provider | <br>HKT<br><br>1O1O | *Economic Digest* |
| The Most Innovative Prepaid Program Launched in 2015 in Hong Kong | HKT Payment | MasterCard |
| Top Service Awards 2016<br>• Mobile Network Service Operators<br>• Best Staff Award – The Second Runner-up | <br>csl<br>csl staff member | *Next Magazine* |
| TOUCH Brands 2016<br>• Social Media Award<br>• Touch Brands Award | <br>csl<br>csl<br>NETVIGATOR<br>Smart Living | *East TOUCH* |
| Touching Moment Contest 2015<br>• Top 3 essays | <br>csl | Hong Kong Association for Customer Service Excellence |
| TVB Most Popular TV Commercial Awards 2016<br>• Most Popular TV Commercials | <br>csl | TVB |
| U Magazine Travel Awards 2016<br>• Travel Product & Service – My Favourite Travel Product – Data Roaming<br>• Travel Product & Service – My Favourite Social Media – Operator Service/Telecommunications | <br>csl | *U Magazine* |
| Web Accessibility Recognition Scheme 2016<br>• Silver Award (Website Stream) | <br>HKT | The Office of the Government Chief Information Officer and the Equal Opportunities Commission |
| World Communications Awards 2016<br>• Innovation Award: Operator<br>• Users' Choice Award | <br>PCCW Global | Total Telecom |

# STATEMENT FROM THE CHAIRMAN

I am pleased to report a solid AFF (adjusted funds flow) for HKT for the year ended December 31, 2016, underpinned by satisfactory business performance, operational synergies and improved margins.

Amid poor economic conditions and intensified market competition in Hong Kong, HKT's market-leading broadband and mobile communications businesses continued to perform steadily last year.

We have further expanded our fiber network and plan to build a cross harbor superfast cable to serve the existing and future needs of individual and business customers. On mobile communications, we completed in the third quarter integration of the core network, and this has released synergies according to plan. The unified network is more robust and versatile in offering superb services to our mobile customers.

Backed by the core business base, HKT has made good progress in developing new initiatives with a view to creating value for unitholders in the longer term. The Tap & Go mobile payment service, which received its regulatory license last August, is gaining traction with additional features as more consumers are adopting innovative payment methods.

To meet the increasing demand for electric vehicles (EVs) charging, HKT launched the Smart Charge total EV charging solutions in the second half jointly with CLP Holdings Limited. HKT strives to promote electric mobility and contribute to a cleaner environment in Hong Kong.

After a lackluster growth in 2016, Hong Kong's economic prospects in the coming year will likely continue to be beset with economic uncertainties both at home and globally. Industry competition in Hong Kong will remain intense, while the regulatory environment continues to be challenging. Given our forward-looking strategy and management's track record of prudent execution, we are confident that HKT will be in the most advantageous position to gain when consumer and business confidence fully returns, and deliver value for our unitholders.

**Richard Li**
Chairman
January 13, 2017

I am pleased to report that HKT was able to continue the momentum gained in the first half and concluded 2016 with satisfactory operational results amid generally hesitant consumer and business spending sentiments and increased market competition.

## MARKET-LEADING BROADBAND SERVICE

The broadband business continued its steady performance in 2016, even though we were faced with the most intense competitive pressure in recent years and lackluster local economic conditions.

HKT operates the most extensive genuine fiber network in Hong Kong, with a 87.6% fiber-to-the-building (FTTB) coverage. We consistently enjoy a healthy growth in the number and proportion of fiber broadband customers within our base, with notable increases of upgrade to and subscription of our 1Gbps service. As we endeavor to serve our customers in remote geographical areas, we expanded during last year our coverage in the rural villages, as well as strengthening high-speed broadband availability on the outlying islands of Cheung Chau and Peng Chau.

Not only do we have the capacity to deliver the continuously surging traffic driven by OTT (over-the-top) content consumption, the emergence of more high definition (HD) video and virtual reality (VR) content, but we also constantly innovate to enhance user experience. Earlier last year, NETVIGATOR collaborated with PCCW Media to roll out a true 4K ultra high definition (UHD) all-in-one appliance, Now One, for the viewing of Now TV, digital terrestrial TV (DTT) and OTT content. Customer response has been encouraging.

## CREATING SMARTER LIFESTYLE

Promoting a convenient, smarter lifestyle for our customers has been a main goal of HKT in recent years, as exemplified in our range of Smart Living solutions such as home networking, automation, security, and entertainment.

To existing and potential owners of electric vehicles (EVs) HKT brought exciting news of a new service in August. A newly formed equal joint venture with CLP Holdings Limited, Smart Charge (HK) Limited, now offers total EV charging solutions to meet increasing demand in Hong Kong for EV owners to charge their cars at home. Smart Charge will blend HKT's excellent customer service and relationship with property management, and its experience in offering Smart Living solutions, with CLP's expertise in electricity infrastructure deployment. Both partners share the same commitment to a sustainable environment.

Smart Charge will engage with building management offices and incorporated owners' committees to pre-install electrical infrastructure in residential and office car parks, and EV chargers can be installed at the car park space of end customers. There is also plan for a comprehensive network coverage in public areas, with a simple pricing structure based on the duration of charging.

To promote electric mobility, HKT sponsored Hong Kong's first electric Formula race which was held last October at the Central harbor front. The two-day Formula E HKT Hong Kong ePrix attracted 20,000 spectators.

## A BIG, UNIFIED MOBILE NETWORK

HKT is currently the largest mobile communications service operator in Hong Kong, offering a range of service plans and value-added features to meet the exponential increase in mobile data usage. Since the re-acquisition of CSL Holdings Limited in mid-2014, we have re-launched the mobile brands, enhanced our products and customer service, and upgraded the csl and 1010 retail shops. Of no less importance in ensuring an excellent customer experience was the task of unifying the mobile networks.

Following the consolidation of the radio cell sites of the legacy CSL and HKT networks at the end of 2015, our engineers and technology experts undertook several major exercises to integrate the core networks. I am delighted to report that the integration was successfully concluded in the third quarter of 2016. The core mobile network, more robust and resilient, is now situated in HKT self-owned exchange buildings. In addition to realizing savings and operational synergies, the unified system is now in a better-than-ever position to offer reliable, hi-speed services to customers.

In this connection, it is not surprising that our marketing campaign illustrating the benefits of our network, "Hit the BIG time on a BIG network", won the Gold Award in the prestigious HKMA/TVB Awards for Marketing Excellence organized by Hong Kong Management Association and TVB last November.

## TAP AND GO

HKT broke new ground with the introduction of mobile payment service Tap & Go in July 2015 via an all-in-one SIM card. Through operating subsidiary HKT Payment Limited, we made an application to the Hong Kong Monetary Authority for a Stored Value Facilities (SVF) license in early 2016 following the enactment of the Payment Systems and Stored Value Facilities Ordinance. In line with our expectation, HKT Payment was among the first to receive the SVF license last August, which enables us to operate SVFs and retail payment systems in Hong Kong.

As an innovative and secure mobile payment service that is available to all Hong Kong mobile users, Tap & Go constantly seeks to enhance consumer and merchant experience. In 2016, it launched a range of features such as PayPartner (an end-to-end mobile payment acceptance solution for the retail sector), PayMaster (for families and schools to manage expenses, fee payments, etc.), and PayBuddy 2.0 (for bill sharing and crowd funding).

Tap & Go customers can make payment at more than four million MasterCard® contactless merchant locations worldwide. From November 2016, taxi commuters can also settle fares with Tap & Go. Tap & Go is available on a growing fleet of SynCab multi-purpose taxis which provide free Wi-Fi, USB charging, and spacious room for luggage and a wheelchair.

## MEETING ENTERPRISES' CURRENT AND FUTURE NEEDS

HKT has long been the preferred telecom partner of large corporations and small-and-medium sized enterprises in Hong Kong because of our reliability and extensive network. HKT offers a wide range of cloud-based and integrated solutions to help businesses improve productivity and effectiveness in reaching customers and driving sales, which is especially important in a challenging economic environment.

For example, HKT offers the retail sector high-speed broadband network, secure cloud-based retail solutions, digital marketing platform, social Wi-Fi and analytics solutions. These together with Tap & Go make our mobile payment service the most comprehensive service of its kind in Hong Kong.

With the proliferation of data center facilities in some areas, HKT announced in November a plan to construct a super high capacity fiber optic cable, Ultra Express Link, connecting the Tseung Kwan O Industrial Estate on the Kowloon side and Chai Wan on the Hong Kong Island side.

The link will be a three-kilometer submarine cable system with a target service date later this year. It supplements HKT's existing, extensive cross-harbor fiber connections through the three road tunnels and it aims to provide robust, reliable, lower latency and diversity connectivity, which will enable HKT to meet the rising demand for high-speed and high-capacity requirements from data center operators.

HKT's international operating division, PCCW Global, continues to focus on delivering innovative and highly reliable services to end customers and service providers for them to extend their offerings into new markets and to build profitable revenue streams.

In 2016, PCCW Global became the world's first service provider to be accredited with MEF 100Gbps CE2.0 certification for E-Line and E-Access services on our SES (Ethernet over MPLS and VPLS) and DES (Ethernet over SDH) platforms. This represented a milestone for the industry because the previous upper limit for MEF CE2.0 services certification was 10Gbps. PCCW Global has planned for the long-term capacity requirements to meet the rising demand of businesses and communities, in particular across Africa.

## BUILDING FOR TOMORROW

The global economic conditions including those in China have been very challenging in the past year, and Hong Kong being an open economy has experienced the impacts. Increased market competition focused primarily on short-sighted price-cutting rather than service innovation has created an even more difficult operating environment.

At HKT, the 2016 results have demonstrated the resilience of our operations. As the market leader in all our core businesses of fixed line, broadband and mobile communications, we have built a solid base for further innovation and growth.

In 2017, we will focus on ensuring the continued success of our core businesses while developing the new initiatives such as Tap & Go and Smart Charge, which have great potential given Hong Kong consumers' changing behavior and habits, as well as aspirations for a smarter lifestyle. Prudently we will also continue to build the necessary infrastructure to meet the needs of consumers and business customers. We will also continue to encourage the Hong Kong telecommunications policy-makers and regulators to be more forward thinking and to update policies so as to facilitate Hong Kong becoming a truly Smart City and to anticipate the needs of 5G technology and the emerging Internet-of-Things. This strategy will help us withstand the challenges and competition that we may be faced with in the short term – but more importantly allow us to invest and innovate to meet Hong Kong's telecommunications needs into the future.

**Alex Arena**
Group Managing Director
January 13, 2017

# BOARD OF DIRECTORS

## EXECUTIVE DIRECTORS

**LI Tzar Kai, Richard**
Executive Chairman

Mr Li, aged 50, 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 65, 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 52, 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 61, 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 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, a Director of certain FWD group companies and Senior Advisor to PCCW Limited (PCCW). He is also a Director of certain other companies controlled by Mr Li Tzar Kai, Richard, the Executive Chairman of HKT and the Trustee-Manager. 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 56, 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.

**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 General Manager and Vice Chairman 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 54, 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, Deputy General Manager 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 (HKT) and HKT Management Limited (Trustee-Manager), 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. He is also an Alternate Director to Sir David Ford, a Non-Executive Director of PCCW, in certain FWD group companies controlled by Mr Li Tzar Kai, Richard, the Executive Chairman of HKT and the Trustee-Manager.

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 76, 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 73, 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 70, 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 and Wockhardt Limited in Mumbai, India; and Max Financial Services Limited (formerly Max India Limited) and Cairn India Limited in New Delhi, India. He was an Independent Non-Executive Director of Emaar MGF Land Limited and Jet Airways (India) 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 55, 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. 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, 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, 2016.

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 throughout HKT Trust, HKT Limited and its subsidiaries (together, the "Group") to all employees, including directors and officers, of the Trustee-Manager and of the Company and its subsidiaries (together, 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, 2016, 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.

## 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 of the Trustee-Manager and the Company and their employees (where applicable) 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 enquiry 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.

The interests and short positions of the directors and the chief executives of the Trustee-Manager and the Company 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 50 to 73 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, 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 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 holders of units of the HKT Trust for the application or misapplication of any Trust Property. The Trustee-Manager Board confines itself to making broad policy decisions and exercising a number of reserved powers as below:

- those functions and matters as set out in the terms of reference of various committees (where applicable) (as amended from time to time) for which Trustee-Manager Board approval must be sought from time to time;
- consideration and approval of the financial statements of the HKT Trust and the Trustee-Manager in the interim and annual reports, and announcements of interim and annual results;

## BOARDS OF DIRECTORS *(CONTINUED)*

- consideration of distributions to 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 and the Group Managing Director of the Trustee-Manager and the Company are Li Tzar Kai, Richard and Alexander Anthony Arena respectively. The role of the Executive Chairman is separate from that of the Group Managing Director. The Executive Chairman is responsible for ensuring the Boards function effectively, providing leadership for the Boards in setting objectives and strategies, and ensuring good corporate governance practices are enforced. The Group Managing Director is responsible for leading the management of the Trustee-Manager and the Company in conducting their business affairs in accordance with the Group's objectives, and implementing the Group's strategies and policies. Details of the composition of the Boards are set out in the Combined Report of the Directors on pages 50 to 73 of this annual report.

All directors of the Trustee-Manager and the Company 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 Group. Directors may take independent professional advice, which will be paid for by the Trustee-Manager or the Company, as appropriate.

The directors of the Trustee-Manager and the Company acknowledge their responsibility for preparing the financial statements of, respectively, the HKT Trust and HKT Limited, and the Trustee-Manager for each financial year, which give a true and fair view of the financial position of the Group and of the HKT Limited Group and of the Trustee-Manager, and of the financial performance and cash flows of the Group and of the HKT Limited Group and of the Trustee-Manager, 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, 2016, the directors of the Trustee-Manager and the Company 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 Trust and HKT Limited, and the Trustee-Manager are respectively set out in the Independent Auditor's Reports on pages 74 to 79 and pages 176 to 177 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 members of the Boards are set out on pages 18 to 22 of this annual report and are available on the Company's website (www.hkt.com). 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 Trustee-Manager and the Company 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 2016. 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 5, 2016 with the attendance of the external auditor to answer questions.

## BOARDS OF DIRECTORS *(CONTINUED)*

The attendance of individual directors at the Boards and their respective committee meetings, and the Combined Annual General Meeting held in 2016 is set out in the following table:

| | Meetings attended/eligible to attend in 2016 *(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 | 4/4 | 3/3 | N/A | N/A | 4/4 | 3/3 | 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 4)* | N/A | 1/1 | 2/2 | 2/4 *(Note 4)* | 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 *(Chairperson of the Company's Remuneration Committee)* | 4/4 | N/A | N/A | 2/2 | 4/4 | N/A | 1/1 |

***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 2016 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 2016 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. 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.

## 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/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. 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 of 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 50 to 73 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 and Trustee-Manager'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, 2016 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 management to ensure he/she has an understanding of the Group's operations and business, and will receive a tailored induction handbook containing the Group'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 regularly updated of the legal and regulatory requirements relevant to their duties through their participation in the training seminars organized by the company secretary, and the operations, organization and governance policies of the Group through regular meetings with management. They are also provided with written materials from time to time to develop and refresh their knowledge and skills and regular updates on the Group's business. The company secretary organizes and arranges seminars presented by qualified professionals 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 and Frances Waikwun Wong, have received the requisite director's training. The Company and the Trustee-Manager together have received confirmation from all directors of their respective training records for the year ended December 31, 2016.

## 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 the HKT Limited Group's 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*, 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 annual and interim reports of HKT Trust and HKT Limited and the Group's policies from time to time to ensure compliance with the various rules and obligations imposed under the Listing Rules, and assists directors in the review of the effectiveness of the risk management and internal control systems of the 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 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 are:
Frances Waikwun Wong *(Chairperson)*
Professor Chang Hsin Kang
Sunil Varma
Lu Yimin

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

- 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/her own remuneration.

The Remuneration Committee met twice in 2016. The attendance of individual directors at the committee meetings is set out on page 26 of this annual report.

The work performed by the Remuneration Committee during 2016 included:

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

(ii) review and approval of the 2015 performance bonus for executive directors and senior management;

(iii) review of the non-executive directors' fees for 2016;

(iv) review and approval of the 2016 business key performance indicators and performance bonus scheme for executive directors and senior management; and

(v) review and approval of stock awards made pursuant to the Company's share stapled units award scheme(s).

## COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

### Remuneration Committee *(continued)*

Subsequent to the year end, the emoluments of directors of the Company for 2016 have been reviewed by the Remuneration Committee. 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.

### 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 Nomination Committee conducted an annual review of the Company Board's composition taking into account the Board Diversity Policy at its meeting held on January 13, 2017 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 2016. The attendance of individual directors at the committee meeting is set out on page 26 of this annual report.

The work performed by the Nomination Committee during 2016 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 for re-election at the Combined Annual General Meeting on May 5, 2016; and

(iv) annual review of the structure, size and composition of the Company Board taking into account the Board Diversity Policy, with a recommendation to the Company Board for approval.

## COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

### 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 holders of Share Stapled Units. The Audit Committee is also responsible for assisting the Company Board to ensure effective risk management and internal control systems of the HKT Limited Group are in place and good corporate governance standards and practices are maintained within the HKT Limited Group. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEX.

The Audit Committee's responsibilities also include the appointment, compensation and supervision of the external auditors. To ensure 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, non-financial reporting information systems consultation, and accounting advice related to application of new accounting standards, which require specific review and approval by the Audit Committee.

For the year ended December 31, 2016, 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$12 million, HK$3 million and HK$2 million, respectively.

At its meeting held on January 13, 2017, 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 2017 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 are:
Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
Peter Anthony Allen

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 2016, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 26 of this annual report.

The work performed by the Audit Committee during 2016 included:

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

(ii) review of the annual report and the annual results announcement for the year ended December 31, 2015, with a recommendation to the Company Board for approval;

## COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

### Audit Committee *(continued)*

(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, 2015, with a recommendation to the Company Board for the re-appointment of PricewaterhouseCoopers at the 2016 Combined Annual General Meeting;

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

(v) review of the continuing connected transactions (including PricewaterhouseCoopers' report on the continuing connected transactions) for the year ended December 31, 2015, with a recommendation to the Company Board for approval;

(vi) review and approval of the Group Internal Audit reports (including the internal audit workplan) and the performance of the internal audit function during the year;

(vii) review of the interim report and the interim results announcement for the six months ended June 30, 2016, 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, 2016;

(ix) review and approval of the audit strategy memorandum for the year ending December 31, 2016;

(x) review and approval of PricewaterhouseCoopers' audit engagement letter for the year ending December 31, 2016;

(xi) review and approval of the Risk Management reports on monitoring of the risk management and internal control systems of the HKT Limited Group during the year;

(xii) review and approval of PricewaterhouseCoopers' pre-year end report for the year 2016;

(xiii) consideration and approval of 2016 audit and non-audit services and the 2017 annual budget for audit and non-audit services;

(xiv) review of the corporate governance report and practices for the year ended December 31, 2015 and the corporate governance disclosure for the six months ended June 30, 2016, with a recommendation to the Company Board for approval;

(xv) review of the amendment to relevant existing continuing connected transactions agreements between certain members of PCCW and its subsidiaries and the HKT Limited Group, and of the renewal of these continuing connected transactions agreements for three financial years ending December 31, 2019 and of the related announcement by HKT Trust and HKT Limited, with a recommendation to the Company Board for approval;

(xvi) review of the results of the directors' self-evaluation and the board's self-assessment exercise for the year ended December 31, 2015 to evaluate the performance of the Company Board, its committees, and directors' contribution, with a recommendation to the Company Board for approval; and

(xvii) 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, as well as the report on the effectiveness of HKT Limited Group's risk management and internal control systems all for the year ended December 31, 2016, with recommendations to the Company Board for approval.

## COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

### 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 holders of Share Stapled Units. The Trustee-Manager Audit Committee is also responsible for assisting the Trustee-Manager Board to ensure effective risk management and internal control systems of each of the HKT Trust and the Trustee-Manager (where applicable) are in place and good corporate governance standards and practices are maintained within the HKT Trust and the Trustee-Manager. 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.

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, 2016, 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$0.048 million.

At its meeting held on January 13, 2017, 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 2017 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.

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

The members of the Trustee-Manager Audit Committee are:
Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
Peter Anthony Allen

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 2016, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 26 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 2016 and subsequent to the year end is set out under the heading of "**Audit Committee**" on pages 31 and 32 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 2016 included:

(i) review of the terms of reference of the Trustee-Manager Audit Committee;

(ii) review of the financial information of the Trustee-Manager for the year ended December 31, 2015, 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, 2015, with a recommendation to the Trustee-Manager Board for the re-appointment of PricewaterhouseCoopers at the 2016 Combined Annual General Meeting;

(iv) review of the continuing connected transactions (including PricewaterhouseCoopers' report on the continuing connected transactions) for the year ended December 31, 2015, with a recommendation to the Trustee-Manager Board for approval;

(v) review and approval of the Group Internal Audit reports (including the internal audit workplan) and the performance of the internal audit function during the year;

(vi) review of the financial information of the Trustee-Manager for the six months ended June 30, 2016, 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, 2016;

(viii) review and approval of the audit strategy memorandum for the year ending December 31, 2016;

(ix) review and approval of PricewaterhouseCoopers' audit engagement letter for the year ending December 31, 2016; and

(x) review and approval of PricewaterhouseCoopers' pre-year end report for the year 2016.

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, 2016, 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.

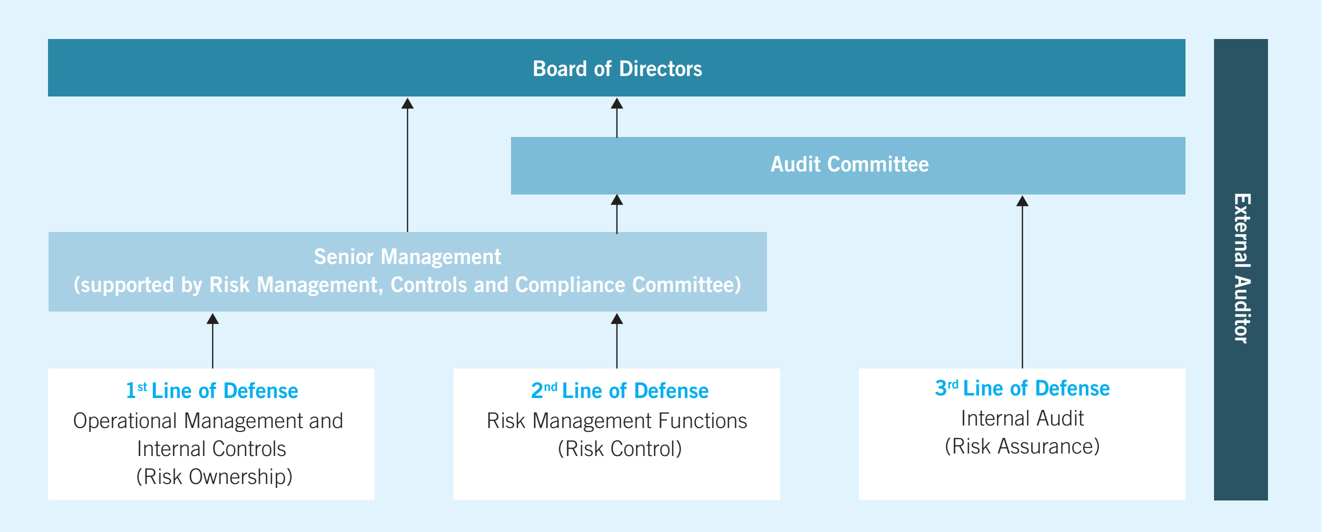
## RISK MANAGEMENT AND INTERNAL CONTROLS

The Boards acknowledge their responsibility for overseeing the risk management and internal control systems of the Group and reviewing their effectiveness at least annually through the Trustee-Manager Audit Committee and the Company Audit Committee (collectively the "Audit Committees") respectively. The Audit Committees assist the Boards in fulfilling their oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal controls, and the resourcing of the finance and internal audit functions.

The Group has established an organizational structure with defined levels of responsibility and reporting procedures. The Risk Management, Controls and Compliance Committee and Group Internal Audit assist the Boards and/or the Audit Committees in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The directors through these committees are kept regularly apprised of significant risks that may impact on the Group's performance.

Appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework is guided by the "Three Lines of Defense" model as shown below:




The Risk Management and Compliance department, which co-ordinates enterprise risk management activities and reviews significant aspects of risk management for the Group, reports to the Audit Committees at each regularly scheduled meeting, and other sub-committees as appropriate, including amongst other things, significant risks of the HKT Limited Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the HKT Limited Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management and Compliance department on a quarterly basis. The Risk Management and Compliance department assesses and presents regular reports to the Risk Management, Controls and Compliance Committee at each regularly scheduled meeting.

Group Internal Audit reports to the Audit Committees at each regularly scheduled meeting throughout the year the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal controls, including but not limited to, any indications of failings or material weaknesses in those controls.

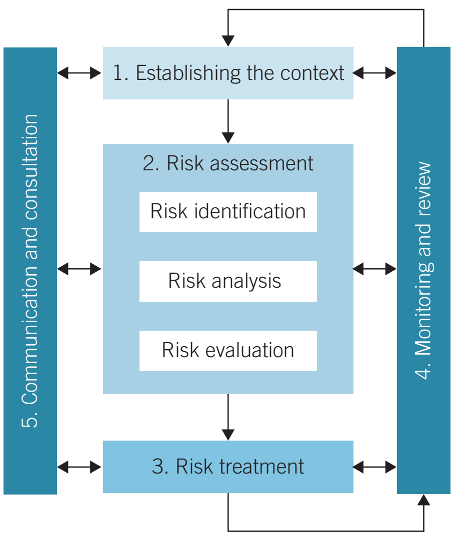
Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities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

## RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

Group Internal Audit provides independent assurance to the Boards, the Audit Committees and the executive management of the Group on the adequacy and effectiveness of internal controls for the Group. The Head of Group Internal Audit reports directly to the Chairmen of the Audit Committees, the Group Managing Director and the Group Chief Financial Officer of the Group.

The senior management of the Group, supported by the Risk Management, Controls and Compliance Committee, the Risk Management and Compliance department and Group Internal Audit, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and for providing regular reports to the Boards and/or the Audit Committees on the effectiveness of these systems.

The Group adopts the principles of ISO 31000:2009 Risk Management – Principles and Guidelines as its approach to manage its business and operational risks. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:




| | |
|---|---|
| 1 | Risk Management and Compliance department establishes common risk language and risk assessment criteria for the Group. |
| 2 | Business Units identify the risks which may potentially impact the achievement of their business objectives, and analyze and evaluate the significance of such risks. |
| 3 | Business Units assess the adequacy of existing controls, determine and implement treatment plans where risk mitigants are actionable. |
| 4, 5 | Business Units monitor risk mitigating activities.<br><br>Risk Management and Compliance department tracks the progress of risk mitigating activities; reports the consolidated view of risks regularly to Audit Committees and other sub-committees as appropriate; and shares risk knowledge across Business Units to enhance the risk management standard of the Group.<br><br>Group Internal Audit reports regularly to the Boards and/or Audit Committees to provide independent assurance on the effectiveness of risk management function. |

The Group has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group 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 Group and its business practices in the future.

The Group has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective operating units of the Company review and assess the status of potential risks which may impact on their ability to achieve their business objectives and/or those of the Company. This review process includes assessment as to whether the existing system of internal controls continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews are recorded in the operating units risk registers for monitoring and incorporated into the Group's consolidated risk register for analysis of potential strategic implications and for regular reporting to the senior management and directors of the Company.

The Audit Committees have established and oversee a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can 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 Chairmen of the respective Audit Committees 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 investigations to them for consideration by the Audit Committees.

## RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

The Group regulates the handling and dissemination of inside information as set out in the Corporate Responsibility Policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

During 2016, the Risk Management and Compliance department has worked closely with the operating units, senior management, and the directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal controls with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management and Compliance department has presented update reports to the Boards and the Audit Committees on the monitoring of the risk management and assisted the directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

During 2016, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions of the HKT Limited Group were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committees, which then reviewed and reported the same to the Boards. The Audit Committees 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 Group (including the Trustee-Manager) and considered the risk management and 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, internal audit and financial reporting functions.

In addition to the review of risk management and internal controls undertaken within the Group, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are 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 Group 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 and 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 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 Bernadette M. Lomas was appointed the Group General Counsel and Company Secretary of the Trustee-Manager and the Company in August 2016. She is also the Group General Counsel and Company Secretary of PCCW. All directors of the Trustee-Manager and the Company have access to the advice and services of the company secretary, who is responsible for ensuring that the board procedures are followed, advising the Boards on all corporate governance matters, and 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, 2016, Ms Lomas has received no less than 15 hours of relevant professional training to refresh her skills and knowledge.

## RIGHTS OF 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 of the HKT Trust at such time or place in Hong Kong.

Shareholders of the Company and the 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

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 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 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 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 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 Group's activities is provided in the annual and interim reports and circulars which are sent to the 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 holders of Share Stapled Units, financial and other information relating to the Group, HKT Limited Group and the Trustee-Manager and their respective business activities have been disclosed on the Company's website in order to promote effective communication.

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their holdings in the Share Stapled Units, the business of the Company and the HKT Trust are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 187 of this annual report and also provided in the Unitholders Communication Policy.

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, 2016, 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 Management Limited and
HKT Limited

**Bernadette M. Lomas**
*Group General Counsel and Company Secretary*
Hong Kong, January 13, 2017

# MANAGEMENT'S DISCUSSION AND ANALYSIS

- Total revenue decreased by 3% to HK$33,847 million; Total revenue (excluding Mobile handset sales) increased by 3% to HK$30,422 million
- Total EBITDA increased by 5% to HK$12,684 million
- Profit attributable to holders of Share Stapled Units increased by 24% to HK$4,889 million; basic earnings per Share Stapled Unit was 64.62 HK cents
- Adjusted funds flow for the year increased by 14% to HK$4,683 million; adjusted funds flow per Share Stapled Unit was 61.85 HK cents
- Final distribution per Share Stapled Unit of 34.76 HK cents

## MANAGEMENT REVIEW

We are pleased to report that HKT delivered a solid set of financial results for the year ended December 31, 2016, in the midst of an increasingly challenging macroeconomic environment and intensified market competition. This performance demonstrates the resilience of all our core businesses and reflects the strong execution across our operations during the year.

Total revenue for the year ended December 31, 2016 decreased by 3% to HK$33,847 million, impacted by lower revenue from Mobile handset sales due to the absence of marquee handsets throughout 2016. Excluding Mobile handset sales, underlying revenue for the year increased by 3% to HK$30,422 million.

Total EBITDA for the year was HK$12,684 million, an increase of 5% over the previous year. The growth in EBITDA was primarily driven by the continued release of cost synergies from the successful completion of the integration of CSL Holdings Limited ("CSL") as well as the steady performance of the Telecommunications Services ("TSS") business.

Profit attributable to holders of Share Stapled Units was HK$4,889 million, an increase of 24% over the previous year. Basic earnings per Share Stapled Unit was 64.62 HK cents.

Adjusted funds flow for the year ended December 31, 2016 reached HK$4,683 million, an increase of 14% over the previous year. Adjusted funds flow per Share Stapled Unit was 61.85 HK cents.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution of 34.76 HK cents per Share Stapled Unit for the year ended December 31, 2016. This brings the 2016 full-year distribution to 61.85 HK cents per Share Stapled Unit (comprising 27.09 HK cents as interim and 34.76 HK cents as final distribution) representing the complete payout of the annual adjusted funds flow per Share Stapled Unit.

## OUTLOOK

The 2016 results have demonstrated the resilience of our operations and the strength of our market leadership across all our core businesses, in particular the broadband and mobile segments. Notably, the broadband business witnessed continued customer upgrades to Fiber-to-the-Home ("FTTH") services and the mobile business benefited from the completion of the CSL integration.

However, the outlook for the coming year is clouded by a number of factors. Hong Kong's macroeconomic environment will remain subdued in view of the local and global uncertainties. Industry competition will remain intense and primarily price focused, while the regulatory environment may also not be accommodative. New technologies and evolving consumer behavior will disrupt traditional business models, but also give rise to opportunities. We will strive to enhance our network and services, such as our Tap & Go mobile payment service, to capture these opportunities. This strategy will help us withstand the challenges and competition that we may be faced with in the short term – but more importantly allow us to invest and innovate to meet Hong Kong's telecommunications needs into the future.

## FINANCIAL REVIEW BY SEGMENT

| For the year ended December 31,<br>HK$ million | 2015<br>H1 | H2 | Full Year | 2016<br>**H1** | **H2** | **Full Year** | Better/<br>(Worse)<br>y-o-y |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| TSS | 10,145 | 10,732 | 20,877 | **10,308** | **11,106** | **21,414** | 3% |
| Mobile | 6,044 | 8,273 | 14,317 | **6,335** | **6,728** | **13,063** | (9)% |
| Other Businesses | 84 | 123 | 207 | **118** | **119** | **237** | 14% |
| Eliminations | (299) | (373) | (672) | **(373)** | **(494)** | **(867)** | (29)% |
| **Total revenue** | 15,974 | 18,755 | 34,729 | **16,388** | **17,459** | **33,847** | (3)% |
| **Cost of sales** | (6,544) | (8,995) | (15,539) | **(6,973)** | **(7,472)** | **(14,445)** | 7% |
| ***Gross Margin*** | *59%* | *52%* | *55%* | ***57%*** | ***57%*** | ***57%*** | |
| ***Gross Margin (excluding Mobile handset sales)*** | *65%* | *64%* | *65%* | ***64%*** | ***63%*** | ***64%*** | |
| **Operating costs before depreciation, amortization, and gain on disposal of property, plant and equipment, net** | (3,660) | (3,430) | (7,090) | **(3,550)** | **(3,168)** | **(6,718)** | 5% |
| **EBITDA[1]** | | | | | | | |
| TSS | 3,654 | 3,853 | 7,507 | **3,681** | **3,990** | **7,671** | 2% |
| Mobile | 2,298 | 2,732 | 5,030 | **2,439** | **3,074** | **5,513** | 10% |
| Other Businesses | (182) | (255) | (437) | **(255)** | **(245)** | **(500)** | (14)% |
| **Total EBITDA[1]** | 5,770 | 6,330 | 12,100 | **5,865** | **6,819** | **12,684** | 5% |
| ***TSS EBITDA[1] Margin*** | *36%* | *36%* | *36%* | ***36%*** | ***36%*** | ***36%*** | |
| ***Mobile EBITDA[1] Margin*** | *38%* | *33%* | *35%* | ***39%*** | ***46%*** | ***42%*** | |
| ***Total EBITDA[1] Margin*** | *36%* | *34%* | *35%* | ***36%*** | ***39%*** | ***37%*** | |
| Depreciation and amortization | (3,194) | (3,008) | (6,202) | **(2,827)** | **(2,981)** | **(5,808)** | 6% |
| Gain on disposal of property, plant and equipment, net | 3 | 2 | 5 | **2** | **1** | **3** | (40)% |
| Other gains/(losses), net | 33 | (15) | 18 | **9** | **(60)** | **(51)** | NA |
| Finance costs, net | (631) | (679) | (1,310) | **(483)** | **(624)** | **(1,107)** | 15% |
| Share of results of associates and joint ventures | (15) | (10) | (25) | **(8)** | **(15)** | **(23)** | 8% |
| **Profit before income tax** | 1,966 | 2,620 | 4,586 | **2,558** | **3,140** | **5,698** | 24% |

## ADJUSTED FUNDS FLOW

| For the year ended December 31, HK$ million | 2015 H1 | 2015 H2 | 2015 Full Year | **2016 H1** | **2016 H2** | **2016 Full Year** | Better/(Worse) y-o-y |
|---|---|---|---|---|---|---|---|
| **Total EBITDA**[1] | 5,770 | 6,330 | 12,100 | **5,865** | **6,819** | **12,684** | 5% |
| Less cash outflows in respect of: | | | | | | | |
| Customer acquisition costs and licence fees | (1,519) | (1,808) | (3,327) | **(1,381)** | **(2,078)** | **(3,459)** | (4)% |
| Capital expenditures[6] | (1,304) | (1,733) | (3,037) | **(1,472)** | **(1,363)** | **(2,835)** | 7% |
| **Adjusted funds flow before tax paid, net finance costs paid and changes in working capital** | 2,947 | 2,789 | 5,736 | **3,012** | **3,378** | **6,390** | 11% |
| Adjusted for: | | | | | | | |
| Tax payment | (75) | (290) | (365) | **(81)** | **(470)** | **(551)** | (51)% |
| Net finance costs paid | (435) | (467) | (902) | **(414)** | **(370)** | **(784)** | 13% |
| Changes in working capital | (484) | 108 | (376) | **(466)** | **94** | **(372)** | 1% |
| **Adjusted funds flow**[2] | 1,953 | 2,140 | 4,093 | **2,051** | **2,632** | **4,683** | 14% |
| **Annual adjusted funds flow per Share Stapled Unit (HK cents)**[3] | | | 54.06 | | | **61.85** | |

## KEY OPERATING DRIVERS[4]

| | 2015 H1 | 2015 H2 | **2016 H1** | **2016 H2** | Better/(Worse) y-o-y |
|---|---|---|---|---|---|
| Exchange lines in service ('000) | 2,657 | 2,654 | **2,650** | **2,648** | 0% |
| Business lines ('000) | 1,248 | 1,249 | **1,249** | **1,250** | 0% |
| Residential lines ('000) | 1,409 | 1,405 | **1,401** | **1,398** | 0% |
| Total broadband access lines ('000) (Consumer, business and wholesale customers) | 1,567 | 1,572 | **1,569** | **1,567** | 0% |
| Retail consumer broadband subscribers ('000) | 1,404 | 1,405 | **1,405** | **1,401** | 0% |
| Retail business broadband subscribers ('000) | 138 | 144 | **144** | **148** | 3% |
| Traditional data (Exit Gbps) | 3,673 | 4,072 | **4,378** | **5,171** | 27% |
| Retail IDD minutes (million minutes) | 356 | 319 | **283** | **249** | (21)% |
| Mobile subscribers ('000) | 4,653 | 4,558 | **4,445** | **4,512** | (1)% |
| Post-paid subscribers ('000) | 3,147 | 3,127 | **3,106** | **3,130** | 0% |
| Prepaid subscribers ('000) | 1,506 | 1,431 | **1,339** | **1,382** | (3)% |

*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 associates and joint ventures, and the Group's share of results of associates and joint ventures. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards ("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 | 2015 H1 | 2015 H2 | 2015 Full Year | **2016 H1** | **2016 H2** | **2016 Full Year** | Better/ (Worse) y-o-y |
|---|---|---|---|---|---|---|---|
| **TSS Revenue** | | | | | | | |
| Local Telephony Services | 1,690 | 1,785 | 3,475 | **1,688** | **1,772** | **3,460** | 0% |
| Local Data Services | 3,356 | 3,648 | 7,004 | **3,478** | **3,763** | **7,241** | 3% |
| International Telecommunications Services | 3,869 | 3,544 | 7,413 | **3,612** | **3,772** | **7,384** | 0% |
| Other Services | 1,230 | 1,755 | 2,985 | **1,530** | **1,799** | **3,329** | 12% |
| **Total TSS Revenue** | 10,145 | 10,732 | 20,877 | **10,308** | **11,106** | **21,414** | 3% |
| Cost of sales | (4,569) | (4,903) | (9,472) | **(4,713)** | **(5,170)** | **(9,883)** | (4)% |
| Operating costs before depreciation and amortization | (1,922) | (1,976) | (3,898) | **(1,914)** | **(1,946)** | **(3,860)** | 1% |
| **Total TSS EBITDA[1]** | 3,654 | 3,853 | 7,507 | **3,681** | **3,990** | **7,671** | 2% |
| ***TSS EBITDA[1] margin*** | *36%* | *36%* | *36%* | ***36%*** | ***36%*** | ***36%*** | |

TSS revenue for the year ended December 31, 2016 increased by 3% to HK$21,414 million and EBITDA for the year increased by 2% to HK$7,671 million, with a stable EBITDA margin of 36%.

*Local Telephony Services*. Local telephony services revenue declined slightly to HK$3,460 million for the year ended December 31, 2016, as compared to HK$3,475 million a year earlier. While the eye service delivered higher average revenue per user ("ARPU"), there was a consistent decline in the residential lines in service from 1.405 million at the end of December 2015 to 1.398 million at the end of December 2016. Total fixed lines in service as at end of December 2016 were approximately 2.648 million.

*Local Data Services*. Local data services revenue, comprising broadband network revenue and local data revenue, increased by 3% to HK$7,241 million for the year ended December 31, 2016.

Despite keen market competition, the broadband network business continued to register solid revenue growth of 3% during the year, marking the ninth consecutive year of growth. The growth in revenue was driven by the continued customer take-up and upgrade to our higher speed, higher price FTTH service. At the end of December 2016, there were approximately 616,000 FTTH customers. Although the growth in FTTH subscribers slowed, subscriptions to our 1Gbps FTTH service grew notably during the year stimulated by the offering of compelling content and excellent viewing experience to our broadband customers through the Now One 4K all-in-one consumer appliance, which was launched in June 2016.

Amidst more cautious spending sentiment by enterprises, local data revenue still increased by 3% during the year. This increase was driven by the growing demand for cross border connectivity solutions, network facility management services as well as managed cloud services from our enterprise customers.

*International Telecommunications Services*. International telecommunications services revenue for the year ended December 31, 2016 held steady at HK$7,384 million, as compared to HK$7,413 million a year earlier despite the non-recurrence of project-specific revenue generated in the first half of 2015.

*Other Services*. Other services revenue primarily comprises revenue from 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, 2016 increased by 12% to HK$3,329 million on the back of a 13% year-on-year increase in CPE sales arising from the joint collaboration with PCCW Solutions to deliver managed network and infrastructure projects and 8% year-on-year growth in the Teleservices business during the year.

## Mobile

| For the year ended December 31, HK$ million | 2015 H1 | 2015 H2 | 2015 Full Year | **2016 H1** | **2016 H2** | **2016 Full Year** | Better/ (Worse) y-o-y |
|---|---|---|---|---|---|---|---|
| **Mobile Revenue** | | | | | | | |
| Mobile Services | 4,583 | 4,636 | 9,219 | **4,558** | **5,080** | **9,638** | 5% |
| Handset Sales | 1,461 | 3,637 | 5,098 | **1,777** | **1,648** | **3,425** | (33)% |
| **Total Mobile Revenue** | 6,044 | 8,273 | 14,317 | **6,335** | **6,728** | **13,063** | (9)% |
| **Mobile EBITDA[1]** | | | | | | | |
| Mobile Services | 2,272 | 2,698 | 4,970 | **2,425** | **3,014** | **5,439** | 9% |
| Handset Sales | 26 | 34 | 60 | **14** | **60** | **74** | 23% |
| **Total Mobile EBITDA[1]** | 2,298 | 2,732 | 5,030 | **2,439** | **3,074** | **5,513** | 10% |
| ***Mobile EBITDA[1] margin*** | *38%* | *33%* | *35%* | ***39%*** | ***46%*** | ***42%*** | |
| *Mobile Services EBITDA[1] margin* | *50%* | *58%* | *54%* | ***53%*** | ***59%*** | ***56%*** | |

Mobile services revenue for the year ended December 31, 2016 increased by 5% to HK$9,638 million from HK$9,219 million a year earlier, driven by an increase in the post-paid customer base and higher ARPU as well as higher revenue recorded for mobile enterprise solutions in the corporate and wholesale segment. However, lower revenue from handset sales of HK$3,425 million was recorded during the year, as compared to HK$5,098 million a year earlier, as there was an absence of marquee handsets throughout 2016.

The post-paid exit ARPU as at the end of December 2016 increased to HK$233 from HK$230 a year earlier as a result of a few factors. The Mobile business continued to witness a significant proportion of SIM only plan customers. There was also the prevailing shift in IDD and roaming traffic to over-the-top ("OTT") voice and messaging applications resulting in the contribution to mobile services revenue declining to 14% in 2016 from 17% a year earlier. These negative trends moderated the improvement in ARPU from the increased take-up and upgrades to enhanced data usage plans and premium 1O1O service plans for better customer service and privileges.

As at December 31, 2016, the total mobile customer base was 4.512 million, of which 3.130 million were post-paid customers. The churn rate for post-paid customers improved to 1.3% in 2016, as compared to 1.4% a year earlier. Of the total post-paid customer base, approximately 81% were smart device users representing a gradual increase from 80% a year ago.

Total Mobile EBITDA for the year increased by 10% to HK$5,513 million, with the margin improving to 42% from 35% a year earlier. EBITDA for Mobile services increased by 9% to HK$5,439 million, with the margin further improving to 56% from 54% a year earlier. This sustained improvement in Mobile services EBITDA reflects the cost savings from the successful CSL network integration completed in the third quarter of 2016.

## Other Businesses

Other Businesses primarily comprised corporate support functions and the provision of predominantly fixed network services to campus-based customers in the United Kingdom. Revenue from Other Businesses was HK$237 million for the year ended December 31, 2016, as compared to HK$207 million a year ago.

## Eliminations

Eliminations were HK$867 million for the year ended December 31, 2016, as compared to HK$672 million a year ago. The increase reflected the growing collaboration amongst HKT's various business segments to take advantage of our capabilities in offering integrated products and services to consumers and enterprise customers.

## Cost of Sales

Cost of sales for the year ended December 31, 2016 decreased by 7% to HK$14,445 million, reflecting lower Mobile handset sales during the year. As a result, gross margin improved to 57% from 55% a year ago.

## General and Administrative Expenses

For the year ended December 31, 2016, operating costs before depreciation, amortization, and gain on disposal of property, plant and equipment, net, ("operating costs") fell by 5% to HK$6,718 million, benefiting from the full realization of cost synergies from the CSL integration and continued focus on cost efficiency. Accordingly, the operating costs to revenue ratio for the Mobile business improved to 19.6% from 20.7% a year ago, while the operating costs to revenue ratio for the TSS business improved to 18.0% from 18.7% a year ago. Overall operating costs to revenue ratio, therefore, improved to 19.8% from 20.4% a year ago.

Depreciation expenses decreased by 23% during the year, which was attributable to the write-off of certain depleted network assets during the CSL integration and the review of the useful lives of new network assets that were deployed as part of the CSL integration. Amortization expenses increased slightly by 1% during the year which reflected higher customer acquisition costs in the second half of 2016 due to increased spending to counter the subdued economic conditions and intensified industry competition. As a result, total depreciation and amortization expenses decreased by 6% to HK$5,808 million for the year ended December 31, 2016.

General and administrative expenses, therefore, decreased by 6% to HK$12,523 million for the year ended December 31, 2016.

## EBITDA[1]

As a result of the steady performance in the TSS business and the realization of cost synergies in the Mobile business, overall EBITDA increased by 5% to HK$12,684 million for the year ended December 31, 2016. The EBITDA margin improved to 37% from 35% a year ago.

## Finance Costs, Net

Net finance costs for the year ended December 31, 2016 decreased by 15% to HK$1,107 million from HK$1,310 million a year ago, reflecting the savings from the refinancing of the US$500 million 5.25% guaranteed notes and the US$500 million 4.25% guaranteed notes in July 2015 and February 2016, respectively. As a result, the average cost of debt improved to 2.5% during the year, as compared to 2.8% a year ago.

## Income Tax

Income tax expense for the year ended December 31, 2016 was HK$771 million, as compared to HK$600 million a year ago, representing an effective tax rate of 13.5% for the year versus an effective tax rate of 13.1% a year ago. The increase in the tax expense was mainly due to the increase in taxable profits in 2016 and the full utilization of the tax loss of a company resulting from the CSL integration in 2015, partly offset by the recognition of a deferred income tax asset resulting from a loss-making company turning profitable in 2016.

## Non-controlling Interests

Non-controlling interests of HK$38 million (2015: HK$37 million) primarily comprised 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, 2016 increased by 24% to HK$4,889 million (2015: HK$3,949 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.

In July 2016, HKT took advantage of a favorable market window post Brexit and raised US$750 million 10-year guaranteed notes at a coupon of 3.00%. The proceeds were used for general corporate purposes including the repayment of existing indebtedness. HKT's gross debt[5] was HK$38,798 million as at December 31, 2016 (December 31, 2015: HK$36,849 million) with the increase attributable to the payment in August 2016 for the renewed mobile spectrum of approximately HK$1,950 million. Cash and short-term deposits totaled HK$3,332 million as at December 31, 2016 (December 31, 2015: HK$3,768 million).

As at December 31, 2016, HKT had ample liquidity as evidenced by committed banking facilities totaling HK$27,181 million, of which HK$6,038 million remained undrawn.

HKT's gross debt[5] to total assets was 42% as at December 31, 2016 (December 31, 2015: 41%).

## CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2016, 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]

Lower capital expenditure, including capitalized interest, of HK$2,878 million was incurred for the year ended December 31, 2016 (2015: HK$3,054 million) as capital expenditures for the Mobile business decreased year-on-year following the completion of the CSL integration in the third quarter of the year. Capital expenditures for the TSS segment were relatively steady and included a phased investment in the AAE-1 submarine cable. As a result, capital expenditure relative to revenue improved to 8.5% for the year ended December 31, 2016 (2015: 8.8%), in spite of the impact from lower revenue related to Mobile handset sales.

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.

More than 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 currencies 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, 2016, all forward and swap contracts were designated as cash flow hedges for the related borrowings of the Company.

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

## CHARGE ON ASSETS

As at December 31, 2016, no assets of the Group (2015: nil) were pledged to secure loans and banking facilities of HKT.

## CONTINGENT LIABILITIES

| As at December 31, HK$ million | 2015 | **2016** |
|---|---|---|
| Performance guarantees | 2,108 | **513** |
| Others | 65 | **57** |
| | 2,173 | **570** |

The Group is subject to certain corporate guarantee obligations to guarantee performance of the Company's 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 over 18,900 employees as at December 31, 2016 (2015: 19,400) located in 43 countries and cities. About 59% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. 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 34.76 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, 2016 (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 34.76 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 27.09 HK cents per Share Stapled Unit/ordinary share of the Company for the six months ended June 30, 2016 was paid to holders of Share Stapled Units/shareholder of the Company in September 2016.

The board of directors of the Trustee-Manager has confirmed, in accordance with the Trust Deed, that (i) the auditor of the Group has 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, 2016.

The Trustee-Manager Board also presents its audited financial statements for the year ended December 31, 2016, which are set out in the accompanying financial statements on pages 176 to 186.

## 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 activity of the Company is investment holding, and 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, and other telecommunications businesses such as customer premises equipment sales, 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 associates 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 fair 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 2016 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 14, pages 15 to 17 and pages 40 to 48 respectively. The above discussions form part of this report.

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 is pro-competition and pro-consumer. This has led to increased competition and 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, and continues 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 is aware of the increasing possibility that key interest rates may rise in the foreseeable future and that if not appropriately managed, these may have a significant impact on the Group's cost of financing.

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 currencies including United States dollars. Accordingly, forward and swap contracts are used to manage the Group's 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 from time to time decide to delay, change, modify or forgo certain 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. To mitigate such risks, the Group regularly engages subject matter experts to advise on relevant matters and to provide notification of pending changes and that may impact on the Group's activities.

*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. Network performance is closely monitored by teams of experienced professionals to ensure that the network is reliable and available to support business growth and business 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. The Group makes extensive use of multiple channels to keep informed of emerging cyber security threats and to identify and implement measures intended to mitigate the occurrence and/or consequences of such risks being realized.

## BUSINESS REVIEW *(CONTINUED)*

**Principal Risks and Uncertainties** *(continued)*

*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. The Group constantly reviews its human resources philosophy and strategy to ensure that its human resources policies, processes and practices are able to facilitate its organization development.

*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), the Personal Data (Privacy) Ordinance (Cap. 486) and the Payment Systems and Stored Value Facilities Ordinance (Cap. 584). The failure to be responsive to 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 in place a Corporate Social Responsibility ("CSR") Policy and has adopted other related policies and procedures of its parent company PCCW. 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. HKT is a member of Friends of the Earth (HK) and The Green Earth.

In 2016, HKT continued to voluntarily disclose its carbon footprint data for inclusion into the Environmental Protection Department's Carbon Footprint Repository.

To minimize light nuisance, HKT has been supporting the WWF's annual Earth Hour campaign for years. In April 2016, HKT became a signatory to the "Charter on External Lighting" of the Environment Bureau. Under the Charter, HKT complies with the requirement to switch off at designated hours lighting installations with decorative, promotional or advertising purposes which affect the outdoor environment.

In August, HKT announced the formation of an equal joint venture, Smart Charge (HK) Limited, with CLP Holdings Limited to provide total electric vehicle charging solutions and to promote electric mobility for a cleaner environment in Hong Kong.

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 handset recycling across its shop network. It has 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 November 2016, the Group further extended electronic billing arrangement to its residential telephone line customers in a bid to reduce paper consumption. To promote the green living concept among staff, green workshops and conservation days were organized periodically. HKT also donated surplus resources such as outdated uniforms to charitable organizations for the people in need.

## BUSINESS REVIEW *(CONTINUED)*

**Environmental Policies and Performance** *(continued)*

In 2016, HKT received the Gold Award of Save Resources Mission and the Bronze Award of Save Energy Mission of the Green Missions program organized by Friends of the Earth (HK). In December, HKT was awarded the CarbonCare® Action Label 2016 for implementing innovative carbon reduction solutions. HKT also won the Silver Award under the category of Public Organisation, Utility & University in the CLP GREEN$^{PLUS}$ Award 2016.

**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 Dialogue Experience: Empower Program and Hong Kong Society for the Aged, we have further promoted inclusion for disabled talents and elderly employees in the workplace. 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.

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, online, or at retail shops and customer service centers. 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 more than 50 awards in different categories at the Hong Kong Tourism Board, Hong Kong Call Centre Association, Hong Kong Retail Management Association and Mystery Shopper Service Association in 2016. In addition, the Group has in place 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.

## BUSINESS REVIEW *(CONTINUED)*

**Relationships with Stakeholders** *(continued)*

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. To cultivate future IT professionals, 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. HKT has also participated in The Women's Foundation's "Girls Go Tech" program offering free workshops on computer coding skills and digital culture to girls from underprivileged families.

PCCW Group's corporate volunteer team, comprising staff volunteers and their families from HKT and PCCW, last year ran 26 ongoing programs and 15 special programs for various charities and social services groups. In 2016, the volunteer team was once again given the Award of 10,000 Hours for Volunteer Service and the Merit of Highest Service Hour Award 2015 (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 2015. The volunteer team also won the Bronze Award in the volunteer team category of the Hong Kong Corporate Citizenship Programme organized by the Hong Kong Productivity Council and the Committee on the Promotion of Civic Education in 2016. In appreciation of the commitment of staff volunteers, HKT has in place a Volunteer Appreciation Scheme 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. In 2016, HKT also received the Social Capital Builder Logo Awards from the Community Investment and Inclusion Fund (CIIF) of the Labour and Welfare Bureau.

**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 Competition Ordinance (Cap. 619), the Personal Data (Privacy) Ordinance (Cap. 486), the Payment Systems and Stored Value Facilities Ordinance (Cap. 584), 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.

**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.

## BUSINESS REVIEW *(CONTINUED)*

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

**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.

**Personal Data (Privacy) Ordinance ("PDPO")**

The PDPO aims to protect the privacy rights of a person in relation to personal data and sets out six data protection principles which should be adhered to when personal data is received or handled. Non-compliance of such data protection principles may result in enforcement notices from the Privacy Commissioner for Personal Data and may constitute an offence under the PDPO. The Group has various internal policies and procedures as well as regular reviews, training and audits to ensure that personal data received from customers is handled with care and the data protection principles are followed. The Group also has designated data protection officers in ensuring its compliance with the PDPO.

## RESULTS, APPROPRIATIONS AND DISTRIBUTIONS

The results of the Group for the year ended December 31, 2016 are set out in the consolidated income statement of HKT Trust and of HKT Limited on page 80.

The results of the Trustee-Manager for the year ended December 31, 2016 are set out in the income statement of HKT Management Limited on page 178.

An interim distribution/dividend of 27.09 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, 2016 was paid to holders of Share Stapled Units/shareholder of the Company in September 2016.

The Trustee-Manager Board has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 34.76 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, 2016 (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 34.76 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, 2016 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 175.

## 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, 2016. Details of the share capital of the Company for the year ended December 31, 2016 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, 2016. Details of the share capital of the Trustee-Manager for the year ended December 31, 2016 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 181.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2016, 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
Sunil Varma
Aman Mehta
Frances Waikwun Wong

## 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, Alexander Anthony Arena, Chung Cho Yee, Mico, BG Srinivas and Aman Mehta 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, 2016, 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:

| | Number of Share Stapled Units held | | | | | | |
|---|---|---|---|---|---|---|---|
| Name of Director/Chief Executive | 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 | 2,444,668 | – | – | 1,196,297 *(Note 2)* | – | 3,640,965 | 0.05% |
| Hui Hon Hing, Susanna | 1,870,653 | – | – | 938,396 *(Note 3)* | – | 2,809,049 | 0.04% |
| Peter Anthony Allen | 21,530 | – | – | – | – | 21,530 | 0.0003% |
| Chung Cho Yee, Mico | 99,238 | 946 *(Note 4)* | – | – | – | 100,184 | 0.001% |
| Srinivas Bangalore Gangaiah | – | – | – | 116,350 *(Note 5)* | – | 116,350 | 0.002% |
| 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 88.58% 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 Alexander Anthony Arena 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 interests represented awards made to Hui Hon Hing, Susanna which were subject to certain vesting conditions pursuant to the relevant award schemes of the Company and PCCW, namely the HKT Share Stapled Units Purchase Scheme and the Purchase Scheme. Details of the HKT Share Stapled Units Purchase Scheme are set out in the section below headed "**Share Stapled Units Award Schemes**".

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

5. These interests represented an award made to BG Srinivas which was subject to certain vesting conditions pursuant to an award scheme of PCCW, namely the Purchase Scheme.

### 2. Interests in PCCW, an Associated Corporation of the Company

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:

| | Number of ordinary shares of PCCW held | | | | | | |
|---|---|---|---|---|---|---|---|
| Name of Director/Chief Executive | 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 | – | – | 307,694,369 *(Note 1(a))* | 1,928,842,224 *(Note 1(b))* | – | 2,236,536,593 | 28.97% |
| Alexander Anthony Arena *(Note 4)* | 878,731 | – | – | 1,416,872 *(Note 3)* | 200 *(Note 2)* | 2,295,803 | 0.03% |
| Hui Hon Hing, Susanna | 3,464,886 | – | – | 1,404,388 *(Note 3)* | – | 4,869,274 | 0.06% |
| 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 | 103,799 | – | – | 362,273 *(Note 3)* | – | 466,072 | 0.01% |
| 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 PCCW, an Associated Corporation of the Company** *(continued)*

***Notes:***

1. (a) Of these PCCW shares, PCD held 269,471,956 shares and Eisner held 38,222,413 shares.

   (b) These interests represented:

   (i) a deemed interest in 175,312,270 shares of PCCW held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 175,312,270 shares of PCCW held by PCGH; and

   (ii) a deemed interest in 1,753,529,954 shares of PCCW held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,753,529,954 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 awards 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 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 to be re-drawn, as an interest bearing loan repayable in cash. As at December 31, 2016, US$1,698,256.65 (together with interest accrued) remains outstanding and such amount, together with interest continuing to accrue, will be repaid on April 29, 2017. The consultancy agreement terminated on the expiry of its seven year term in 2016.

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

Save as disclosed in the foregoing, as at December 31, 2016, 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 whom 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.

## SHARE STAPLED UNITS OPTION SCHEME *(CONTINUED)*

(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, 2016.

## 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, 2016, an aggregate of 2,160,944 Share Stapled Units were awarded subject to certain vesting conditions pursuant to the HKT Share Stapled Units Purchase Scheme, including an award in respect of 593,724 and 257,280 Share Stapled Units made respectively to Alexander Anthony Arena and Hui Hon Hing, Susanna (the directors of the Company and the Trustee-Manager). Additionally, 154,141 Share Stapled Units have lapsed and/or been forfeited and 4,399,558 Share Stapled Units have vested during the year.

As at the date of this annual report, an aggregate of 5,764,257 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested, which represents approximately 0.08% 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, 2016.

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, 2016, 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% | |

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.

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, 2016.

## 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 were entered into or subsisted during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2016, the interests of the Directors in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

**Li Tzar Kai, Richard**

Li Tzar Kai, Richard has a personal interest in 75,240 shares in CK Hutchison Holdings Limited ("CK Hutchison"), 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 CK Hutchison. CK Hutchison and its subsidiaries are involved in the core businesses of ports and related services, retail, infrastructure, energy and telecommunications. Certain businesses of CK Hutchison may compete with certain aspects of the businesses of the HKT Limited Group during the year.

**Lu Yimin and Li Fushen**

Lu Yimin is an executive director and President of China Unicom (Hong Kong) Limited. He is General Manager and Vice Chairman 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, Deputy General Manager 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.

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 engaged in telecommunications business and other related businesses and compete with certain aspects of the businesses 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.

# *For identification only*

## 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$1,630,000 for charitable and other purposes (2015: HK$110,000).

## 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, 2016, none of the HKT Trust (including the Trustee-Manager), the Company or the Company's subsidiaries purchased, sold or redeemed any Share Stapled Units.

## CONTINUING CONNECTED TRANSACTIONS

The HKT Limited Group entered into various agreements with certain members of PCCW and its subsidiaries (excluding the HKT Limited Group) (collectively the "PCCW Group") for operational needs as described in the announcement dated December 27, 2013 jointly issued by the Trustee-Manager and the Company and as listed below which constituted continuing connected transactions of the Company under the Listing Rules for a term of 3 years expiring on December 31, 2016. 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.

With the continued growth and development in the business and operations of the HKT Limited Group, the Trustee-Manager and the Company issued an announcement on December 23, 2016 to amend the terms of certain existing continuing connected transaction agreements made between the HKT Limited Group and the PCCW Group so as to increase the annual caps for the year 2016 and/or to adjust the scope of transactions; and to renew the applicable continuing connected transaction agreements for another three-year term ending December 31, 2019 and to set the new annual caps for the years 2017 to 2019 in accordance with the Listing Rules requirements.

## CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Set out below are the continuing connected transactions between the HKT Limited Group and the PCCW Group during the year ended December 31, 2016 and the Trustee-Manager and the Company have complied with the applicable requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions during the year.

**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 (as subsequently amended on December 23, 2016), 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, free TV 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 (as subsequently amended on December 23, 2016), 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 (as subsequently amended on December 23, 2016), 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**

Under the licence agreement dated December 27, 2013 (as subsequently amended on December 23, 2016), 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/provision of service and product**

On December 27, 2013, HK Telecom and PCCW Media entered into a service packaging agreement (as subsequently amended and renamed as service and product provision agreement on December 23, 2016) comprising 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 the customers of the HKT Limited Group with certain 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 (as subsequently amended on December 23, 2016), which 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 media content services agreement (as subsequently amended on December 23, 2016), pursuant to which PCCW Media has a first right of supply and agreed to supply, procure the supply of or provide content management and production support services to the HKT Limited Group for distribution through its various platforms including eye and mobile platforms or other 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 (as subsequently amended on December 23, 2016) 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**

Under the licence agreement dated 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 (as subsequently amended on December 23, 2016), PCCW Solutions provides certain DCMS 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 (as subsequently amended on December 23, 2016), 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")**

Under the BPLO services agreement dated December 27, 2013 between Power Logistics Limited ("Power Logistics"), a company in the Solutions Group, and HK Telecom (as subsequently amended on December 23, 2016), 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 (as subsequently amended on December 23, 2016). 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)*

**Other transactions between the HKT Limited Group and the PCCW Group**

(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 shared services agreement (as subsequently amended on December 23, 2016), 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 procurement 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, an indirect wholly-owned subsidiary of PCCW, entered into a marketing and promotion services agreement (as subsequently amended on December 23, 2016), pursuant to which HK Telecom has agreed to provide marketing and promotion services to members of the PCCW Group for the marketing and promotion of the PCCW Group's products and services. 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 3 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 three supplemental agreements dated September 9, 2011, December 19, 2013 and October 2, 2015 respectively). The tenancy agreement expired on February 29, 2016 and was not renewed.

HK Telecom is also a tenant of certain spaces located at Telecom House, which are leased from Reach Networks Hong Kong Limited pursuant to two leases dated May 25, 2012 and December 13, 2012 respectively. The leases expired on February 29, 2016 and were not renewed.

On December 27, 2013, PCCW Media entered into a licensing 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.

As the tenancy agreement/leases between HKT Limited Group and Reach Networks Hong Kong Limited in respect of the Telecom House were not renewed when they expired in February 2016, the licensing agreement with PCCW Media had been terminated with effect from February 2016.

## CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

The approximate aggregate values together with the existing and (where applicable) the revised 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, 2016 are set out below:

| Agreement/Service description | Approximate aggregate values for the financial year ended December 31, 2016 HK$'000 | Existing/Revised annual caps for the financial year ended December 31, 2016 HK$'000 |
|---|---|---|
| Services and floor space supplied by the HKT Limited Group to the Media Group | | |
| (1) The provision of carriage services | 176,149 | 506,600 |
| (2) The provision of marketing and sales services | 193,274 | 253,000 |
| (3) The provision of internal (specialist telecom) services | 24,712 | 24,800 |
| (4) Licensed access to floor space | 2,351 | 5,900 |
| Services supplied by the Media Group to the HKT Limited Group | | |
| (5) Service and product provision agreement (previously known as service packaging arrangements) | 697,616 | 1,051,600 |
| (6) The provision of marketing and sales services | 43,884 | 71,600 |
| (7) Content provision arrangements | 358,244 | 435,600 |
| (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 | 358,700 | 366,800 |
| (11) Licensed access to floor space | 10,378 | 16,300 |
| Services supplied by the Solutions Group to the HKT Limited Group | | |
| (12) (a) DCMS – bureau services | 710,400 | 841,800 |
| (b) ITSI – application management services | 100,140 | 200,200 |
| ITSI – system development services | 61,483 | 162,500 |
| **ITSI Total** | 161,623 | 362,700 |
| (c) BPLO – business process and logistics operation | 173,000 | 174,300 |
| **Solutions services Total** | 1,045,023 | 1,378,800 |
| (13) Contracted service cost from PCCW Macau to TSL | 83,400 | 150,000 |
| Sub-contracting fees from TSL to PCCW Macau | 1,700 | 7,500 |
| Other transactions between the HKT Limited Group and the PCCW Group | | |
| (14) The provision of corporate shared services | 137,180 | 215,000 |
| (15) The provision of marketing and promotion services | 27,143 | 104,300 |
| (16) Licensing agreement (PCCW Tower) | 140,498 | 173,000 |
| (17) Licensing of leased floor spaces (Telecom House) | 2,495 | 21,600 |

## 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, 2016 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 Trustee-Manager and the Company jointly to the Stock Exchange.

The Trustee-Manager Board and the Company 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) on normal commercial terms or better; and

(iii) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the holders of the Share Stapled Units as a whole.

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

## RELATED PARTY TRANSACTIONS

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, 2016 and the financial statements of the Trustee-Manager for the financial year ended December 31, 2016 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 Management Limited and
HKT Limited

**Bernadette M. Lomas**
*Group General Counsel and Company Secretary*
Hong Kong, January 13, 2017

# 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)*

## Opinion

### *What 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 80 to 174 (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, 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### *Our opinion*

In our opinion, the HKT Trust and HKT Limited consolidated financial statements give a true and fair view of the consolidated financial position of the Group and of the HKT Limited Group as at December 31, 2016, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the HKT Trust and HKT Limited Consolidated Financial Statements section of our report.

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

### *Independence*

We are independent of the Group and of the HKT Limited Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

## Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the HKT Trust and HKT Limited consolidated financial statements of the current period. These matters were addressed in the context of our audit of the HKT Trust and HKT Limited consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- Revenue recognition
- Significant judgements on current income tax liabilities and deferred income tax assets
- Impairment assessment on the Group's and the HKT Limited Group's key businesses

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Revenue recognition***<br>*Refer to note 7 in the HKT Trust and HKT Limited consolidated financial statements.*<br><br>The Group and the HKT Limited Group recognized revenue of HK$33,847 million for the year ended December 31, 2016, including external revenue from the Telecommunications Services ("TSS") and the Mobile of HK$20,547 million and HK$13,063 million, respectively.<br><br>Significant effort was spent auditing the revenue recognized by the TSS and the Mobile due to the large volume of transactions and complexity of the systems used and the use of management estimates to determine the fair values of elements to allocate revenue from multiple-element arrangements. | Our procedures in relation to revenue recognition included:<br><br>• Testing the IT control environment in which ordering, service provisioning, metering, rating and billing systems for the TSS and the Mobile reside;<br><br>• Assessing management's estimates used to determine the fair values of elements to allocate revenue from multiple-element arrangements with reference to the Group's and the HKT Limited Group's accounting policies;<br><br>• Testing the effectiveness of controls over the calculation and allocation of revenue of the TSS and the Mobile to appropriate periods and the separable elements of multiple-element arrangements; and<br><br>• Testing, on a sample basis, the accuracy of the sales transaction records and the allocation of revenues from multiple-element arrangements of the TSS and the Mobile from the general ledger to the underlying invoices, contractual documentation and evidence of cash receipts.<br><br>We found the revenue recorded to be supported by the available evidence. |

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

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Significant judgements on current income tax liabilities and deferred income tax assets***<br>*Refer to notes 13 and 31 in the HKT Trust and HKT Limited consolidated financial statements.* | |
| The Group and the HKT Limited Group operate across several jurisdictions and are subject to Hong Kong and Overseas tax. From time to time, there are queries raised by relevant tax authorities in respect of the tax treatment of certain matters. Significant judgement was used to estimate the outcome of these matters and the appropriate amount of current income tax liabilities.<br><br>The Group and the HKT Limited Group has recognized deferred income tax assets of HK$316 million related to available tax losses as at December 31, 2016. Management has considered the future taxable income and tax planning strategies in determining whether the Group and the HKT Limited Group will be able to utilize the available tax losses and the appropriate amount of deferred income tax assets to be recognized. | Our procedures in relation to significant judgements on current income tax liabilities and deferred income tax assets included:<br><br>• Discussing with management the basis of the current income tax liabilities and the estimated outcome of the queries raised by relevant tax authorities;<br><br>• Assessing the appropriateness of the current income tax provision at the year end, according to the tax rules in different jurisdictions;<br><br>• Validating available tax losses to relevant financial statements and tax assessments; and<br><br>• Assessing the reasonableness of the deferred tax assets and the projected future taxable profits, based on our knowledge of the business and industry.<br><br>We found the current income tax provisions and deferred income tax assets recognized to be supported by the available evidence. |

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

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Impairment assessment on the Group's and the HKT Limited Group's key businesses***<br>*Refer to note 18 in the HKT Trust and HKT Limited consolidated financial statements.*<br><br>As at December 31, 2016, the Group and the HKT Limited Group had goodwill of HK$49,787 million, property, plant and equipment of HK$18,019 million and intangible assets of HK$10,695 million.<br><br>For the purpose of assessing impairment, these assets were allocated to cash generating units ("CGUs"), and the recoverable amount of each CGU was determined by management based on value-in-use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgement was used to appropriately identify of CGUs and to determine the key assumptions, including operating margins, terminal growth rates and discount rates, underlying the value-in-use calculations. Management has concluded that there is no impairment in respect of the goodwill, property, plant and equipment and intangible assets. | Our procedures in relation to management's impairment assessment of the Group's and the HKT Limited Group's key businesses included:<br><br>• Assessing management's identification of CGUs based on the Group's and the HKT Limited Group's accounting policies and our understanding of the Group's and the HKT Limited Group's business;<br><br>• Assessing the value-in-use calculations methodology adopted by management;<br><br>• Comparing the current year actual cash flows with the prior year cash flow projections to consider if the projections included assumptions that were overly optimistic;<br><br>• Assessing the reasonableness of key assumptions (including operating margins, terminal growth rates and discount rates) based on our knowledge of the business and industry; and<br><br>• Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.<br><br>We found management's conclusion that there was no impairment in respect of the goodwill, property, plant and equipment and intangible assets to be supported by the available evidence. |

## Other Information

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 other information. The other information comprises all the information included in the HKT Trust and HKT Limited 2016 annual report other than the consolidated financial statements of HKT Trust and HKT Limited, the financial statements of HKT Management Limited and our auditor's reports thereon ("Other Information").

Our opinion on the HKT Trust and HKT Limited consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the HKT Trust and HKT Limited consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the HKT Trust and HKT Limited consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and the Audit Committee for the HKT Trust and HKT Limited Consolidated Financial Statements

The directors of the Trustee-Manager and the directors of the Company are responsible for the preparation of the HKT Trust and HKT Limited consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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 the HKT Trust and HKT Limited consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the HKT Trust and HKT Limited consolidated financial statements, the directors are responsible for assessing the Group's and the HKT Limited Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and the HKT Limited Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's and the HKT Limited Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the HKT Trust and HKT Limited Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the HKT Trust and HKT Limited consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these HKT Trust and HKT Limited consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the HKT Trust and HKT Limited consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's and the HKT Limited Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the HKT Limited Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the HKT Trust and HKT Limited consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the HKT Limited Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the HKT Trust and HKT Limited consolidated financial statements, including the disclosures, and whether the HKT Trust and HKT Limited consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the HKT Limited Group to express an opinion on the HKT Trust and HKT Limited consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the HKT Trust and HKT Limited consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sean William Tuckfield.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, January 13, 2017

*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, 2016

| In HK$ million | Note(s) | 2015 | **2016** |
|---|---|---|---|
| Revenue | 7 & 8 | 34,729 | **33,847** |
| Cost of sales | | (15,539) | **(14,445)** |
| General and administrative expenses | | (13,287) | **(12,523)** |
| Other gains/(losses), net | 9 | 18 | **(51)** |
| Finance costs, net | 11 | (1,310) | **(1,107)** |
| Share of results of associates | | (27) | **(13)** |
| Share of results of joint ventures | | 2 | **(10)** |
| Profit before income tax | 10 | 4,586 | **5,698** |
| Income tax | 13(a) | (600) | **(771)** |
| Profit for the year | | 3,986 | **4,927** |
| Attributable to: | | | |
| Holders of Share Stapled Units/shares of the Company | | 3,949 | **4,889** |
| Non-controlling interests | | 37 | **38** |
| Profit for the year | | 3,986 | **4,927** |
| Earnings per Share Stapled Unit/share of the Company | | | |
| Basic | 15 | 52.21 cents | **64.62 cents** |
| Diluted | 15 | 52.17 cents | **64.58 cents** |

The notes on pages 87 to 174 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, 2016

| In HK$ million | Note | 2015 | **2016** |
|---|---|---|---|
| Profit for the year | | 3,986 | **4,927** |
| Other comprehensive (loss)/income | | | |
| Items that have been reclassified or may be reclassified subsequently to consolidated income statement: | | | |
| Exchange differences on translating foreign operations | | (109) | **(92)** |
| Available-for-sale financial assets: | | | |
| – changes in fair value | 22 | (54) | **(2)** |
| – transfer to consolidated income statement on impairment | | – | **49** |
| Cash flow hedges: | | | |
| – effective portion of changes in fair value | | (263) | **711** |
| – transfer from equity to consolidated income statement | | (77) | **48** |
| Other comprehensive (loss)/income for the year | | (503) | **714** |
| Total comprehensive income for the year | | 3,483 | **5,641** |
| Attributable to: | | | |
| – Holders of Share Stapled Units/shares of the Company | | 3,446 | **5,603** |
| – Non-controlling interests | | 37 | **38** |
| Total comprehensive income for the year | | 3,483 | **5,641** |

The notes on pages 87 to 174 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, 2016

| In HK$ million | Note | 2015<br>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/(loss)** | | | | |
| Profit for the year | | 3,949 | 37 | 3,986 |
| Other comprehensive loss | | | | |
| Items that have been reclassified or 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 | | (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 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 |

| In HK$ million | Note | 2016<br>Attributable to holders of Share Stapled Units/shares of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|
| **At January 1, 2016** | | **37,616** | **119** | **37,735** |
| **Comprehensive income/(loss)** | | | | |
| Profit for the year | | **4,889** | **38** | **4,927** |
| Other comprehensive income/(loss) | | | | |
| Items that have been reclassified or may be reclassified subsequently to consolidated income statement: | | | | |
| Exchange differences on translating foreign operations | | **(92)** | **–** | **(92)** |
| Available-for-sale financial assets: | | | | |
| – changes in fair value | | **(2)** | **–** | **(2)** |
| – transfer to consolidated income statement on impairment | | **49** | **–** | **49** |
| Cash flow hedges: | | | | |
| – effective portion of changes in fair value | | **711** | **–** | **711** |
| – transfer from equity to consolidated income statement | | **48** | **–** | **48** |
| Total other comprehensive income | | **714** | **–** | **714** |
| **Total comprehensive income for the year** | | **5,603** | **38** | **5,641** |
| **Transactions with equity holders** | | | | |
| Contributions by and distributions to equity holders: | | | | |
| Employee share-based compensation | | **33** | **–** | **33** |
| Distribution/dividend paid in respect of the previous year | 14 | **(2,141)** | **–** | **(2,141)** |
| Interim distribution/dividend declared and paid in respect of the current year | 14 | **(2,051)** | **–** | **(2,051)** |
| Receipt of PCCW shares under the PCCW Subscription Scheme | | **36** | **–** | **36** |
| Settlement of balance with a non-controlling shareholder of a subsidiary | | **–** | **(53)** | **(53)** |
| Dividend declared and paid to non-controlling shareholders of subsidiaries | | **–** | **(41)** | **(41)** |
| **Total transactions with equity holders** | | **(4,123)** | **(94)** | **(4,217)** |
| **At December 31, 2016** | | **39,096** | **63** | **39,159** |

The notes on pages 87 to 174 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, 2016

| In HK$ million | Note | 2015 | **2016** |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 16,674 | **18,019** |
| Interests in leasehold land | 17 | 265 | **253** |
| Goodwill | 18 | 49,817 | **49,787** |
| Intangible assets | 19 | 9,314 | **10,695** |
| Interests in associates | 20 | 67 | **130** |
| Interests in joint ventures | 21 | 554 | **725** |
| Available-for-sale financial assets | 22 | 7 | **77** |
| Derivative financial instruments | 27 | – | **277** |
| Financial assets at fair value through profit or loss | 23 | 11 | **31** |
| Deferred income tax assets | 31 | 231 | **317** |
| Other non-current assets | | 630 | **610** |
| | | 77,570 | **80,921** |
| **Current assets** | | | |
| Prepayments, deposits and other current assets | | 4,462 | **5,226** |
| Inventories | 25(a) | 598 | **707** |
| Trade receivables, net | 25(b) | 3,422 | **3,035** |
| Amounts due from related companies | 6(c) | 73 | **96** |
| Financial assets at fair value through profit or loss | 23 | 14 | **13** |
| Restricted cash | 25(c) | 10 | **36** |
| Short-term deposits | | – | **450** |
| Cash and cash equivalents | 33(c) | 3,768 | **2,882** |
| | | 12,347 | **12,445** |
| **Current liabilities** | | | |
| Short-term borrowings | 25(e) | 3,879 | **–** |
| Trade payables | 25(d) | 2,194 | **2,474** |
| Accruals and other payables | | 4,900 | **5,019** |
| Carrier licence fee liabilities | 32 | 452 | **173** |
| Amount due to a related company | 6(c) | 72 | **37** |
| Amounts due to fellow subsidiaries | 6(c) | 353 | **465** |
| Advances from customers | | 2,066 | **2,126** |
| Current income tax liabilities | | 862 | **1,008** |
| | | 14,778 | **11,302** |

| In HK$ million | Note | 2015 | **2016** |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Long-term borrowings | 26 | 32,436 | **38,193** |
| Derivative financial instruments | 27 | 443 | **14** |
| Deferred income tax liabilities | 31 | 2,552 | **2,713** |
| Deferred income | | 1,079 | **1,021** |
| Carrier licence fee liabilities | 32 | 627 | **544** |
| Other long-term liabilities | | 267 | **420** |
| | | 37,404 | **42,905** |
| **Net assets** | | 37,735 | **39,159** |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 29 | 8 | **8** |
| Reserves | 30 | 37,608 | **39,088** |
| **Equity attributable to holders of Share Stapled Units/shares of the Company** | | 37,616 | **39,096** |
| Non-controlling interests | 24(b) | 119 | **63** |
| **Total equity** | | 37,735 | **39,159** |

Approved and authorized for issue by the boards of directors of HKT Management Limited and HKT Limited (collectively, the "Boards") on January 13, 2017 and signed on behalf of the Boards by

**Alexander Anthony Arena**
*Director*

**Hui Hon Hing, Susanna**
*Director*

The notes on pages 87 to 174 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, 2016

| In HK$ million | Note | 2015 | **2016** |
|---|---|---|---|
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | 33(a) | 11,369 | **12,262** |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from disposal of property, plant and equipment | | 6 | **8** |
| Purchases of property, plant and equipment | | (3,037) | **(2,835)** |
| Purchases of intangible assets | | (3,760) | **(4,254)** |
| Net outflow of cash and cash equivalents in respect of business combinations | 33(b) | (193) | **–** |
| Settlement of contingent consideration in respect of business combination in prior year | 33(b) | (77) | **–** |
| Investments in joint ventures | | – | **(160)** |
| Investment in an associate | | – | **(69)** |
| Investment in an available-for-sale financial asset | | – | **(77)** |
| Loans to an associate | | (49) | **(35)** |
| Repayment of loan from an associate | | 22 | **17** |
| Loans to joint ventures | | (127) | **(79)** |
| Increase in short-term deposits with maturity more than three months | | – | **(450)** |
| **NET CASH USED IN INVESTING ACTIVITIES** | | (7,215) | **(7,934)** |
| **FINANCING ACTIVITIES** | | | |
| New borrowings raised, net | | 18,045 | **16,828** |
| Finance costs paid | | (913) | **(797)** |
| Repayments of borrowings | | (18,173) | **(17,036)** |
| Movement in amounts due to fellow subsidiaries | | 776 | **82** |
| Contribution from/(settlement of balance to) non-controlling shareholders of a subsidiary | | 6 | **(53)** |
| Distributions/dividends paid to holders of Share Stapled Units/shareholders of the Company | | (3,713) | **(4,190)** |
| Dividend paid to non-controlling shareholders of subsidiaries | | (31) | **(41)** |
| **NET CASH USED IN FINANCING ACTIVITIES** | | (4,003) | **(5,207)** |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | 151 | **(879)** |
| Exchange differences | | 4 | **(7)** |
| **CASH AND CASH EQUIVALENTS** | | | |
| Beginning of year | | 3,613 | **3,768** |
| End of year | 33(c) | 3,768 | **2,882** |

The notes on pages 87 to 174 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, 2016 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 associates and joint ventures. The HKT Limited consolidated financial statements for the year ended December 31, 2016 comprise the consolidated financial statements of HKT Limited and its subsidiaries (together the "HKT Limited Group") and the HKT Limited Group's interests in associates 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, 2016 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 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. 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, and other telecommunications businesses such as customer premises equipment sales, 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 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, which is a collective term for all individual Hong Kong Financial Reporting Standards ("HKFRSs"), 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 disclosure requirement of the Hong Kong Companies Ordinance (Cap.622). 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 and amended Hong Kong Financial Reporting Standards are mandatory for the first time for the financial year beginning January 1, 2016, but have no material effect on the Groups' results and financial position for the current and prior accounting periods.

- HKAS 1 (Amendment), Presentation of Financial Statements – Disclosure Initiative.
- HKAS 16 (Amendment), Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation and Amortization.
- HKAS 16 (Amendment), Property, Plant and Equipment – Agriculture: Bearer Plants.
- HKAS 27 (2011) (Amendment), Separate Financial Statements – Equity Method in Separate Financial Statements.
- HKAS 28 (2011) (Amendment), Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception.
- HKAS 38 (Amendment), Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization.
- HKAS 41 (Amendment), Agriculture: Bearer Plants.
- HKFRS 10 (Amendment), Consolidated Financial Statements – Investment Entities: Applying the Consolidation Exception.
- HKFRS 11 (Amendment), Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations.
- HKFRS 12 (Amendment), Disclosure of Interests in Other Entities – Investment Entities: Applying the Consolidation Exception.
- HKFRS 14, Regulatory Deferral Accounts.
- Annual Improvements to 2012-2014 Cycle published in October 2014 by HKICPA.

The Groups have not adopted any amendments and new or amended standards that are not yet effective for the current accounting period, details of which are set out in note 40.

The consolidated financial statements for the year ended December 31, 2016 comprise the financial statements of the Groups, 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 Hong Kong Financial Reporting Standards 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 Hong Kong Financial Reporting Standards that have significant effect on the HKT Trust and HKT Limited consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

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

### c. Subsidiaries and non-controlling interests

Subsidiaries are entities (including structured entities) controlled by the Groups. Control exists when the Groups are exposed to, or have rights to, variable returns from its involvement with the entity and have the ability to affect those returns through their 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.

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. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. A subsequent change to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognized in accordance with HKAS 39 either in the consolidated income statement or as a charge to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the 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. All other components of non-controlling interests are measured at their acquisition date fair value, unless other measurement basis is required by Hong Kong Financial Reporting Standards. 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.

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

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. The difference between the fair value of 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.

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

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.

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

### 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.

Investments in associates are accounted for in the HKT Trust and HKT Limited consolidated financial statements using the equity method and are initially recorded at cost. The Groups' interests in associates 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 associates 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 associates' 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 using the equity method together with the Groups' long-term interests that in substance form part of the Groups' net interest in the associate.

Unrealized profits and losses resulting from transactions between the Groups and their associates are eliminated to the extent of the Groups' interests in the associates, 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 Groups have applied HKFRS 11 to all joint arrangements. 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 when the Groups have 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 using 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 using 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' interests 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.

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

**e. Joint arrangements** *(continued)*

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 Groups.

**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.

**g. Property, plant and equipment**

The following items of property, plant and equipment are stated in the consolidated statement 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 20 years |
| Transmission plant | 5 to 35 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.

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

### h. Leased assets

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

#### i. Classification of assets leased to the Groups

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

#### ii. Assets leased out under operating leases

Where the Groups lease out assets under operating leases, the assets are included in the consolidated statement 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).

#### 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 statement 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 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 Groups' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated statements of financial position at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested at least annually for impairment (see note 3(l)(ii)). In respect of associates and joint ventures, the carrying amount of goodwill is included in the carrying amount of the interests in associates and joint ventures.

On disposal of a CGU or part of a CGU, an associate and a joint venture 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.

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

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

**ii. Carrier licences**

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

**iii. Software**

Costs incurred to acquire, develop or enhance scientific or technical knowledge, design and implementation of new process or systems, licences and market knowledge are capitalized as "intangible assets" if it is identifiable and the Groups 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 |

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

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

### k. Investments in equity securities

The Groups classify their investments in equity securities, other than interests in subsidiaries and interests in associates 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. For unlisted securities or financial assets without an active market, the Groups established fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the consolidated statement of financial position at cost less impairment losses (see note 3(l)(i)). The investments are subsequently accounted for based on their classification as set out below:

#### i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period. Any attributable transaction costs are recognized in the consolidated income statement as incurred.

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.

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

### l. Impairment of assets

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

Investments in equity securities (other than interests in subsidiaries and interests in associates 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;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets; or
- in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

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

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

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the 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 financial asset previously recognized in the consolidated income statement.

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

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

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

### l. Impairment of assets *(continued)*

#### ii. Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– interests in leasehold land;

– intangible assets;

– interests in associates and joint ventures; and

– goodwill.

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

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

– Recognition of impairment losses
An impairment loss is recognized in the 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 of Hong Kong Limited (the "Listing Rules"), 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 Groups apply 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.

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

### m. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently 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 maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

### n. Hedging

#### i. Fair value hedge

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

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

#### ii. Cash flow hedge

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

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

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

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

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

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

### o. Inventories

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

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

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

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

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

### p. Trade and other receivables

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

### q. Cash and cash equivalents

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

### r. Trade and other payables

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

### s. Borrowings

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

### t. Provisions and contingent liabilities

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

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

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

**u. Revenue recognition**

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

**i. Telecommunications and other services**

Telecommunications services comprise local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as outsourcing, consulting and contact centers.

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.

Under certain telecommunications service arrangement, customers can purchase telecommunications equipment together with a fixed period of telecommunications service. 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.

**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 have been transferred to the customer. Revenue is recorded after deduction of any trade discounts.

**iii. Rental income from operating leases**

Rental income receivable under operating leases is recognized in the consolidated income statement in equal installments over the accounting 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.

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

**u. Revenue recognition** *(continued)*

**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.

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

**w. Income tax** *(continued)*

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

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

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

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

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

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

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

    - the same taxable entity; or

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

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

### x. Employee benefits

#### i. Short-term employee benefits

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

#### ii. Retirement benefits

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

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.

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

### x. Employee benefits *(continued)*

#### iii. Share-based payments *(continued)*

The board of directors of PCCW (the "PCCW Board") 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.

#### 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 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, except when deferred in other comprehensive income as qualifying cash flow hedges.

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

**y. Translation of foreign currencies** *(continued)*

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. Items of foreign operations in the statement of financial position, 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.

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;

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; or

vii. the entity, or any member of the Groups of which it is a part, provides key management personnel services to the Groups.

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

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

**aa. Segment reporting**

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

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses and segment performance include transactions between segments. Inter-segment pricing is based on similar terms to 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.

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. Management has also made judgements in applying the Groups' accounting policies. Other key sources of estimation uncertainty are discussed below:

**i. 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 classes of 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 associates and joint ventures; and
- goodwill.

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.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

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

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 these assessments, including the utilization of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

**ii. 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.

**iii. 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 appropriate tax planning strategies. In the event that the Groups' estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the 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.

**iv. 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 queries raised by 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 queries 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.

**v. 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 according to the results of the review.

## 5 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| In HK$ million | Note | 2015 | **2016** |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non–current assets** | | | |
| Interests in subsidiaries | 24(a) | 27,905 | **28,098** |
| | | 27,905 | **28,098** |
| **Current assets** | | | |
| Prepayments, deposits and other current assets | | 5 | **8** |
| Amounts due from subsidiaries | | 7,400 | **7,325** |
| Cash and cash equivalents | | 25 | **–** |
| | | 7,430 | **7,333** |
| **Current liabilities** | | | |
| Accruals and other payables | | 29 | **31** |
| Amounts due to subsidiaries | | 91 | **157** |
| Current income tax liabilities | | 1 | **–** |
| | | 121 | **188** |
| **Net assets** | | 35,214 | **35,243** |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 29 | 8 | **8** |
| Reserves | 29 | 35,206 | **35,235** |
| **Total equity** | | 35,214 | **35,243** |

Approved and authorized for issue by the Boards on January 13, 2017 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 | Note | 2015 | **2016** |
|---|---|---|---|
| Telecommunications service fees received or receivable from a substantial shareholder of PCCW | a | 80 | **80** |
| Telecommunications service fees paid or payable to a substantial shareholder of PCCW | a | 168 | **99** |
| Telecommunications service fees and interest income received or receivable from joint ventures | a | 59 | **34** |
| Telecommunications service fees, equipment purchase, outsourcing fees and rental charges paid or payable to joint ventures | a | 266 | **277** |
| Consultancy service charges and interest income received or receivable from an associate | a | 15 | **15** |
| Telecommunications service fees, management fee and other recharge costs received or receivable from fellow subsidiaries | a | 676 | **989** |
| 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 | a | 1,869 | **2,294** |
| Rent and facilities management charges paid or payable to fellow subsidiaries | a | 144 | **142** |
| Key management compensation | b | 69 | **68** |

**a.** 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.

**b. Details of key management compensation**

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Salaries and other short-term employee benefits | 67 | **66** |
| Post-employment benefits | 2 | **2** |
| | 69 | **68** |

**c. Balances with related companies and fellow subsidiaries**

Other than as specified in notes 20 and 21, the net amounts due to fellow subsidiaries and the net amount due from/to related companies as at December 31, 2015 and 2016 are unsecured, non-interest bearing and have no fixed repayment terms.

## 7 REVENUE

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Telecommunications and other services revenue | 27,730 | **28,279** |
| Sales of goods | 6,951 | **5,516** |
| Rental income | 48 | **52** |
| | 34,729 | **33,847** |

## 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 and assesses the performance of the following segments:

- Telecommunications Services ("TSS") is the leading provider of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

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

- Other businesses of the Groups ("Other Businesses") primarily comprised corporate support functions and the provision of predominantly fixed network services to campus-based customers in the United Kingdom.

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 associates and joint ventures and the Groups' share of results of associates and joint ventures.

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

## 8 SEGMENT INFORMATION *(CONTINUED)*

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

| | | | 2015 | | |
|---|---|---|---|---|---|
| In HK$ million | 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 |

| | | | **2016** | | |
|---|---|---|---|---|---|
| In HK$ million | **TSS** | **Mobile** | **Other Businesses** | **Eliminations** | **Total** |
| **Revenue** | | | | | |
| External revenue | **20,547** | **13,063** | **237** | **–** | **33,847** |
| Inter-segment revenue | **867** | **–** | **–** | **(867)** | **–** |
| Total revenue | **21,414** | **13,063** | **237** | **(867)** | **33,847** |
| **Results** | | | | | |
| EBITDA | **7,671** | **5,513** | **(500)** | **–** | **12,684** |
| **Other information** | | | | | |
| Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations | **1,358** | **1,347** | **173** | **–** | **2,878** |

## 8 SEGMENT INFORMATION *(CONTINUED)*

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

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Total segment EBITDA | 12,100 | **12,684** |
| Gain on disposal of property, plant and equipment, net | 5 | **3** |
| Depreciation and amortization | (6,202) | **(5,808)** |
| Other gains/(losses), net | 18 | **(51)** |
| Finance costs, net | (1,310) | **(1,107)** |
| Share of results of joint ventures | 2 | **(10)** |
| Share of results of associates | (27) | **(13)** |
| Profit before income tax | 4,586 | **5,698** |

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 that the Groups derives revenue from the customers. The comparative information is presented in line with the current year's basis.

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Hong Kong | 28,836 | **28,717** |
| Mainland China, Macau and Taiwan, China | 812 | **743** |
| Others | 5,081 | **4,387** |
| | 34,729 | **33,847** |

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK$77,477 million as at December 31, 2016 (2015: HK$74,758 million). The total of these non-current assets located in other countries are HK$2,604 million as at December 31, 2016 (2015: HK$2,461 million).

## 9 OTHER GAINS/(LOSSES), NET

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Net gain on cash flow hedging instruments transferred from equity | 67 | **–** |
| Net gain on fair value hedging instruments | 48 | **4** |
| Provision for impairment loss on an interest in an associate | (95) | **–** |
| Provision for impairment on an available-for-sale financial asset | – | **(54)** |
| Others | (2) | **(1)** |
| | 18 | **(51)** |

## 10 PROFIT BEFORE INCOME TAX

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

**a. Staff costs**

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Salaries, bonuses and other benefits | 3,059 | **3,068** |
| Share-based compensation expenses | 60 | **53** |
| Retirement costs for staff under defined contribution retirement schemes | 275 | **293** |
| | 3,394 | **3,414** |
| Less: Staff costs included in cost of sales | (729) | **(848)** |
| Staff costs included in general and administrative expenses | 2,665 | **2,566** |

**b. Other items**

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Crediting: | | |
| Gross rental income | 48 | **52** |
| Gain on disposal of property, plant and equipment, net | 5 | **3** |
| Charging: | | |
| Impairment loss for doubtful debts | 284 | **303** |
| Provision for inventory obsolescence | 8 | **6** |
| Depreciation of property, plant and equipment | 1,854 | **1,432** |
| Amortization of land lease premium | 13 | **12** |
| Amortization of intangible assets | 4,335 | **4,364** |
| Cost of inventories sold | 6,490 | **5,032** |
| Cost of sales, excluding inventories sold | 9,049 | **9,413** |
| Exchange losses/(gains), net | 13 | **(34)** |
| Less: Cash flow hedges-transferred from equity | (11) | **48** |
| Remuneration to the Company's auditor | | |
| – audit and audit related services | 15 | **15** |
| – non-audit services | 4 | **2** |
| Remuneration to other auditors | | |
| – audit and audit related services | 3 | **3** |
| – non-audit services | 5 | **–** |
| Operating lease rental | 1,542 | **1,216** |

## 11 FINANCE COSTS, NET

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Interest expenses | (1,220) | **(1,083)** |
| Notional accretion on carrier licence fee liabilities | (114) | **(83)** |
| Other borrowing costs | (7) | **(5)** |
| Cash flow hedges: transferred from equity | (1) | **–** |
| Cash flow hedges: changes in fair value | (32) | **(1)** |
| Impact of re-designation of fair value hedges | (16) | **(16)** |
| | (1,390) | **(1,188)** |
| Interest capitalized in property, plant and equipment *(note (a))* | 17 | **43** |
| Total finance costs | (1,373) | **(1,145)** |
| Interest income | 63 | **38** |
| Finance costs, net | (1,310) | **(1,107)** |

**a.** The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.08% to 3.43% for the year ended December 31, 2016 (2015: from 3.41% to 3.95%).

## 12 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

| | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| In HK$ million | Directors' fees | Salaries | Allowances | Benefits in kind[1] | Bonuses[2] | Retirement scheme contributions | Share-based compensation[3] | 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 mainly includes medical insurance premium.
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)*

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

| In HK$ million | Directors' fees | Salaries | Allowances | Benefits in kind[1] | Bonuses[2] | Retirement scheme contributions | Share-based compensation[3] | Total |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | | | | |
| **Executive directors** | | | | | | | | |
| Li Tzar Kai, Richard | – | – | – | – | – | – | – | – |
| Alexander Anthony Arena | – | 10.29[4] | 10.29 | 0.03 | 14.81 | 1.54 | 6.08 | 43.04 |
| Hui Hon Hing, Susanna | – | 3.65 | 2.09 | 0.03 | 6.42 | 0.44 | 8.19 | 20.82 |
| **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 |
| Sunil Varma | 0.35[7] | – | – | – | – | – | – | 0.35 |
| Aman Mehta | 0.35[8] | – | – | – | – | – | – | 0.35 |
| Frances Waikwun Wong | 0.35[9] | – | – | – | – | – | – | 0.35 |
| | 1.97 | 13.94 | 12.38 | 0.06 | 21.23 | 1.98 | 14.27 | 65.83 |

***Notes:***

1 Benefits in kind mainly includes medical insurance premium.
2 Bonus amounts shown above represent the portion of 2015 bonuses that were paid in 2016. It was determined by reference to the Group and the individual performance during the year ended December 31, 2015.
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 2016 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 2016 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 2016 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 Includes HK$115,000 fee as Chairman of Audit Committee.
8 Includes HK$115,000 fee as Chairman of Nomination Committee.
9 Includes HK$115,000 fee as Chairwoman of Remuneration Committee.

## 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, 2016 (2015: nil).

**c. Directors' retirement benefits**

No retirement benefits were paid to or receivable by any director during the year ended December 31, 2016 by a defined contribution retirement scheme operated by the Group in respect of services as a director of the Company and its subsidiaries (2015: 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, 2016 (2015: nil).

**d. Directors' termination benefits**

No directors' emoluments, retirements benefits, payments or benefits in respect of termination of directors' services were paid to or receivable by the directors during the year ended December 31, 2016 (2015: 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, 2016 (2015: 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, 2016 (2015: nil).

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

No significant transactions, arrangements and contracts in relation to the Group'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, 2016 (2015: nil).

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

**h. Individuals with highest emoluments**

i. Of the five individuals with the highest emoluments, two (2015: 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 (2015: three) non-director individuals for the year ended December 31, 2016 were as follows:

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Salaries, allowances and benefits in kind | 10.26 | **10.51** |
| Bonuses | 2.41 | **2.41** |
| Retirement scheme contributions | 0.82 | **0.84** |
| Share-based compensation | 3.17 | **3.26** |
| | 16.66 | **17.02** |

ii. The emoluments of the three (2015: three) non-director individuals for the year ended December 31, 2016 were within the following emolument ranges:

| | Number of individuals | |
|---|---|---|
| | 2015 | **2016** |
| HK$5,000,001 – HK$5,500,000 | 2 | **2** |
| HK$6,500,001 – HK$7,000,000 | 1 | **1** |
| | 3 | **3** |

## 13 INCOME TAX

**a. Income tax in the consolidated income statement represents:**

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Hong Kong profits tax | | |
| – provision for current year | 466 | **646** |
| Overseas tax | | |
| – provision for current year | 38 | **46** |
| – (over)/under provision for prior year | (11) | **6** |
| Movement of deferred income tax *(note 31(a))* | 107 | **73** |
| | 600 | **771** |

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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 | 2015 | **2016** |
|---|---|---|
| Profit before income tax | 4,586 | **5,698** |
| Notional tax on profit before income tax, calculated at applicable tax rate | 757 | **940** |
| Effect of different tax rates of subsidiaries operating overseas | 5 | **4** |
| Income not subject to tax | (35) | **(31)** |
| Expenses not deductible for tax purposes | 36 | **36** |
| Tax losses not recognized | 28 | **65** |
| (Over)/under provision in respect of prior years | (11) | **6** |
| Utilization of previously unrecognized tax losses | (105) | **(32)** |
| Recognition of tax losses | (80) | **(221)** |
| Net losses of associates and joint ventures not deductible for tax purpose | 5 | **4** |
| Income tax expense | 600 | **771** |

The effective tax rate for the year ended December 31, 2016 remained fairly stable as compared to 2015.

## 14 DISTRIBUTIONS/DIVIDENDS

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Interim distribution/dividend declared and paid in respect of current year of 27.09 HK cents (2015: 25.79 HK cents) per Share Stapled Unit/ordinary share of the Company | 1,953 | **2,051** |
| Less: Distribution/dividend for Share Stapled Units/shares held by the Company's Share Stapled Units Award Schemes | (2) | **(1)** |
| | 1,951 | **2,050** |
| Final distribution/dividend declared in respect of previous financial year, approved and paid during the year of 28.27 HK cents (2015: 23.30 HK cents) per Share Stapled Unit/ordinary share of the Company | 1,764 | **2,141** |
| Less: Distribution/dividend for Share Stapled Units/shares held by the Company's Share Stapled Units Award Schemes | (2) | **(1)** |
| | 1,762 | **2,140** |
| | 3,713 | **4,190** |

For the year ended December 31, 2016, the Company proposed a final dividend of 34.76 HK cents per ordinary share, totaling HK$2,632 million (2015: 28.27 HK cents per ordinary share, totaling HK$2,141 million) to HKT Trust after the end of the reporting period.

For the year ended December 31, 2016, HKT Trust proposed a final distribution of 34.76 HK cents per Share Stapled Unit, totaling HK$2,632 million (2015: 28.27 HK cents per Share Stapled Unit, totaling HK$2,141 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:

| | 2015 | 2016 |
|---|---|---|
| **Earnings (in HK$ million)** | | |
| Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company | 3,949 | **4,889** |
| **Number of Share Stapled Units/shares of the Company** | | |
| Weighted average number of Share Stapled Units/ordinary shares of the Company | 7,571,742,334 | **7,571,742,334** |
| Effect of Share Stapled Units held under the Company's Share Stapled Units Award Schemes | (8,333,897) | **(6,386,484)** |
| Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of basic earnings per Share Stapled Unit/share of the Company | 7,563,408,437 | **7,565,355,850** |
| Effect of Share Stapled Units awarded under the Company's Share Stapled Units Award Schemes | 6,393,272 | **4,884,955** |
| 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 | 7,569,801,709 | **7,570,240,805** |

## 16 PROPERTY, PLANT AND EQUIPMENT

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| In HK$ million | 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 | – | 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 |

## 16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| In HK$ million | Buildings | Exchange equipment | Transmission plant | Other plant and equipment | Projects under construction | Total |
| **Cost** | | | | | | |
| Beginning of year | 1,466 | 20,757 | 23,401 | 12,358 | 1,508 | 59,490 |
| Additions | – | 433 | 410 | 494 | 1,541 | 2,878 |
| Transfers | (77) | 406 | 556 | 359 | (1,321) | (77) |
| Disposals | – | (243) | (320) | (67) | (2) | (632) |
| Exchange differences | – | (19) | (33) | (32) | – | (84) |
| End of year | 1,389 | 21,334 | 24,014 | 13,112 | 1,726 | 61,575 |
| **Accumulated depreciation and impairment** | | | | | | |
| Beginning of year | 631 | 17,201 | 14,945 | 10,039 | – | 42,816 |
| Charge for the year | 31 | 401 | 567 | 433 | – | 1,432 |
| Transfers | (7) | – | – | – | – | (7) |
| Disposals | – | (243) | (320) | (64) | – | (627) |
| Exchange differences | – | (8) | (18) | (32) | – | (58) |
| End of year | 655 | 17,351 | 15,174 | 10,376 | – | 43,556 |
| **Net book value** | | | | | | |
| End of year | 734 | 3,983 | 8,840 | 2,736 | 1,726 | 18,019 |
| Beginning of year | 835 | 3,556 | 8,456 | 2,319 | 1,508 | 16,674 |

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

During the year ended December 31, 2016, the Groups performed a review to reassess the useful lives of certain property, plant and equipment of the Groups, based on the expectations of the Groups’ operational management and technological trend. The reassessment has resulted in changes in the estimated useful lives of these assets. The Groups consider this to be a change in accounting estimate and therefore accounted for the change prospectively from January 1, 2016. As a result of this change in accounting estimate, the Groups’ profit attributable to the holders of Share Stapled Units/shares of the Company for the year ended December 31, 2016 increased by HK$401 million and the equity attributable to the holders of Share Stapled Units/shares of the Company as at December 31, 2016 increased by HK$401 million.

## 17 INTERESTS IN LEASEHOLD LAND

| In HK$ million | 2015 | **2016** |
|---|---|---|
| **Cost** | | |
| Beginning of year and end of year | 536 | **536** |
| **Accumulated amortization** | | |
| Beginning of year | 258 | **271** |
| Charge for the year | 13 | **12** |
| End of year | 271 | **283** |
| **Net book value** | | |
| End of year | 265 | **253** |
| Beginning of year | 278 | **265** |

## 18 GOODWILL

| In HK$ million | 2015 | **2016** |
|---|---|---|
| **Cost** | | |
| Beginning of year | 49,655 | **49,817** |
| Additions upon business combinations | 182 | **–** |
| Exchange differences | (20) | **(30)** |
| End of year | 49,817 | **49,787** |

## 18 GOODWILL *(CONTINUED)*

**Impairment tests for CGUs containing goodwill**

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

| In HK$ million | 2015 | **2016** |
|---|---|---|
| TSS | | |
| – Local telephony and data services | 30,962 | **30,962** |
| – Global | 1,136 | **1,130** |
| – Others | 501 | **500** |
| Mobile | 16,853 | **16,853** |
| Other Businesses | 365 | **342** |
| Total | 49,817 | **49,787** |

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 projection period are extrapolated using the estimated terminal growth rates stated below.

The key assumptions used for value-in-use calculations in 2015 and 2016 are as follows:

| | 2015 | | | **2016** | | |
|---|---|---|---|---|---|---|
| | Operating margin | Terminal growth rate | Discount rate | **Operating margin** | **Terminal growth rate** | **Discount rate** |
| TSS | | | | | | |
| – Local telephony and data services | 77% | 1% | 8% | **77%** | **1%** | **8%** |
| – Global | 23% | 3% | 10% | **22%** | **3%** | **10%** |
| Mobile | 46% | 2% | 10% | **45%** | **2%** | **9%** |

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

There was no impairment required from the review on goodwill as at October 31, 2016.

Management determined budgeted operating margin based on past performance and its expectations for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

## 19 INTANGIBLE ASSETS

| In HK$ million | Trademarks | Carrier licences | Customer acquisition costs | Customer base | Software | Others | Total |
|---|---|---|---|---|---|---|---|
| | | | | 2015 | | | |
| **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 | – | – | – | 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 |

| In HK$ million | **Trademarks** | **Carrier licences** | **Customer acquisition costs** | **Customer base** | **Software** | **Others** | **Total** |
|---|---|---|---|---|---|---|---|
| | | | | **2016** | | | |
| **Cost** | | | | | | | |
| Beginning of year | **1,868** | **4,157** | **4,968** | **2,773** | **1,197** | **14** | **14,977** |
| Additions | **–** | **2,061** | **2,900** | **–** | **623** | **175** | **5,759** |
| Write-off | **–** | **(1,143)** | **(2,540)** | **–** | **–** | **(175)** | **(3,858)** |
| Exchange differences | **(10)** | **–** | **–** | **(10)** | **–** | **–** | **(20)** |
| End of year | **1,858** | **5,075** | **5,328** | **2,763** | **1,820** | **14** | **16,858** |
| **Accumulated amortization** | | | | | | | |
| Beginning of year | **291** | **1,827** | **2,491** | **775** | **265** | **14** | **5,663** |
| Charge for the year | **93** | **520** | **2,834** | **459** | **283** | **175** | **4,364** |
| Write-off | **–** | **(1,143)** | **(2,540)** | **–** | **–** | **(175)** | **(3,858)** |
| Exchange differences | **(2)** | **–** | **–** | **(4)** | **–** | **–** | **(6)** |
| End of year | **382** | **1,204** | **2,785** | **1,230** | **548** | **14** | **6,163** |
| **Net book value** | | | | | | | |
| End of year | **1,476** | **3,871** | **2,543** | **1,533** | **1,272** | **–** | **10,695** |
| Beginning of year | **1,577** | **2,330** | **2,477** | **1,998** | **932** | **–** | **9,314** |

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

## 19 INTANGIBLE ASSETS *(CONTINUED)*

During the year ended December 31, 2015, the Groups 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.

## 20 INTERESTS IN ASSOCIATES

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Share of net assets of associates | – | **63** |
| Loans due from an associate, net | 214 | **214** |
| Provision for impairment | (147) | **(147)** |
| | 67 | **130** |
| Investments at cost, unlisted | 41 | **106** |

**a. As at December 31, 2016, particulars of the associates of the Groups are as follows:**

| Company name | Principal place of business/Place of incorporation | Principal activities | Value of issued capital/ registered capital | Interest held by the Company Directly | Interest held by the Company Indirectly | Measurement method |
|---|---|---|---|---|---|---|
| 東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited#) ("DJTCL") | The People's Republic of China ("PRC") | Provision of support service for mobile service subscription, sales of mobile phones and accessories | RMB40,000,000 | – | 35% | Equity |
| Latto Ltd. ("Latto") | Cyprus | Development and provision of cloud based multi-screen video platforms for streaming and on demand video content – OTT | EUR2,505.15 ordinary shares and EUR10,417.32 aggregate preferred shares | – | 33.5% | 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.

Latto is a strategic partnership of the Groups' growth in integrated telecommunications business, providing cloud based multi-screen video platforms for streaming and on demand video content-OTT in South Africa. The percentage interest held by the Company is calculated on an as-converted basis assuming all the preferred shares are converted into ordinary shares.

The above associates are private companies and there are no quoted market prices available for their shares.

## 20 INTERESTS IN ASSOCIATES *(CONTINUED)*

**b. Commitments and contingent liabilities in respect of the associates**

As at December 31, 2016, the Groups' share of its associates' commitments were as follows:

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Operating lease commitments | | |
| – within 1 year | 3 | **4** |
| – after 1 year but within 5 years | 3 | **4** |

The Groups' contingent liabilities relating to its associates are disclosed in note 37. As at December 31, 2016, the Groups had no share of contingent liabilities of its associates (2015: nil).

**c. Summarized unaudited financial information of the Groups' associates**

Set out below is the summarized unaudited financial information of the associates of the Groups and being accounted for using the equity method.

| | **DJTCL** | | **Latto** |
|---|---|---|---|
| In HK$ million | 2015 | **2016** | **2016** |
| Non-current assets | 3 | **3** | **52** |
| Current assets | 57 | **72** | **16** |
| Non-current liabilities | – | **–** | **–** |
| Current liabilities | (404) | **(426)** | **(16)** |

| In HK$ million | 2015 | **2016** | **2016** |
|---|---|---|---|
| Revenue | 226 | **227** | **4** |
| Loss after income tax and total comprehensive loss | (77) | **(29)** | **(10)** |
| Dividend received from associates | – | **–** | **–** |

The information above reflects the amounts presented in the financial statements of the associates (not the Groups' share of those amounts) adjusted for differences in accounting policies between the Groups and the associates.

**d. Reconciliation of summarized financial information**

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Groups' interests in associates.

| | **DJTCL** | | **Latto** |
|---|---|---|---|
| In HK$ million | 2015 | **2016** | **2016** |
| **Net assets/(liabilities)** | | | |
| Beginning of year | (267) | **(344)** | **–** |
| Net asset value at date of acquisition | – | **–** | **64** |
| Loss for the year/since acquisition | (77) | **(29)** | **(10)** |
| Exchange differences | – | **22** | **(2)** |
| End of year | (344) | **(351)** | **52** |
| Interests in associates | 35% | **35%** | **33.5%** |
| Interests in associates | (120) | **(123)** | **17** |
| Goodwill | 24 | **24** | **46** |
| Loans due from an associate *(note (i))* | 310 | **313** | **–** |
| Provision for impairment | (147) | **(147)** | **–** |
| **Carrying value** | 67 | **67** | **63** |

(i) As at December 31, 2016, loans due from DJTCL comprised unsecured loans totaling HK$118 million (2015: HK$96 million) which bear interest at 4% per annum and repayable in 1 year (2015: same), and certain secured loans totaling HK$195 million (2015: HK$214 million) which bear interest at 4% per annum and repayable in 1 year (2015: same).

During the year ended December 31, 2016, no provision for impairment (2015: HK$95 million) was included in other gains/(losses), net in the consolidated income statement.

During the year ended December 31, 2016, the Groups did not have any unrecognized share of losses of associates (2015: nil). As at December 31, 2016, there was no accumulated share of losses of the associates unrecognized by the Groups (2015: nil).

## 21 INTERESTS IN JOINT VENTURES

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Share of net assets of joint ventures | 70 | **270** |
| Loans due from joint ventures, net | 484 | **455** |
| | 554 | **725** |
| Investments at cost, unlisted | – | **278** |

As at December 31, 2016, the loan due from a joint venture of HK$446 million (2015: HK$484 million) bears interest at HIBOR plus 3% per annum (2015: same). All the loans are unsecured and have no fixed terms of repayment.

**a. As at December 31, 2016, 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 | 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 above principal joint venture is a private company and there is no quoted market price available for its shares.

**b. Commitments and contingent liabilities in respect of joint ventures**

As at December 31, 2016, the Groups' share of its joint ventures' commitments were as follows:

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Commitment to provide funding | 96 | **87** |
| Operating lease commitments | | |
| – within 1 year | 3 | **5** |
| – after 1 year but within 5 years | 5 | **7** |

There were no contingent liabilities relating to the Groups' interests in the joint ventures. As at December 31, 2016, the Groups' share of contingent liabilities relating to its joint ventures comprised bank guarantees of HK$39 million (2015: HK$39 million) and there was no share of corporate guarantees (2015: HK$82 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 | 2015 | **2016** |
|---|---|---|
| Non-current assets | 1,029 | **986** |
| Current assets | | |
| Cash and cash equivalents | 9 | **30** |
| Other current assets (excluding cash and cash equivalents) | 21 | **25** |
| Total current assets | 30 | **55** |
| Current liabilities | | |
| Financial liabilities (excluding trade payables, accruals and other payables) | (244) | **(275)** |
| Other current liabilities (including trade payables, accruals and other payables) | (28) | **(61)** |
| Total current liabilities | (272) | **(336)** |
| Non-current liabilities | | |
| Financial liabilities | (805) | **(730)** |
| Other non-current liabilities | (22) | **(24)** |
| Total non-current liabilities | (827) | **(754)** |
| Net liabilities | (40) | **(49)** |
| Equity attributable to equity holders | (40) | **(49)** |
| Revenue | 241 | **219** |
| Depreciation and amortization | (92) | **(84)** |
| Interest expense | (35) | **(32)** |
| Profit before income tax | 2 | **1** |
| Income tax | (11) | **(10)** |
| Loss after income tax and total comprehensive loss | (9) | **(9)** |
| Dividend received from the joint venture | – | **–** |

For the year ended December 31, 2016, 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 loss of HK$2 million (2015: profit of HK$15 million), and profit of HK$5 million (2015: HK$16 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 | 2015 | **2016** |
|---|---|---|
| **Net liabilities** | | |
| Beginning of year | (31) | **(40)** |
| Loss and total comprehensive loss for the year | (9) | **(9)** |
| End of year | (40) | **(49)** |
| Interest in a joint venture | 50% | **50%** |
| Interest in a joint venture | (20) | **(24)** |
| Loan due from a joint venture | 484 | **446** |
| **Carrying value** | 464 | **422** |

As at December 31, 2016, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method was HK$303 million (2015: HK$90 million).

During the year ended December 31, 2016, the Groups did not have any unrecognized share of losses of joint ventures (2015: nil). As at December 31, 2016, there was no accumulated share of losses of the joint ventures unrecognized by the Groups (2015: nil).

## 22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Beginning of year | 61 | **7** |
| Addition | – | **77** |
| Net loss transferred to equity *(note 30)* | (54) | **(2)** |
| Impairment loss recognized | – | **(5)** |
| End of year | 7 | **77** |

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Listed equity securities – overseas | 7 | **–** |
| Unlisted equity securities | – | **77** |
| | 7 | **77** |

During the year ended December 31, 2016, provision for impairment of HK$54 million (2015: nil) was included in other gains/(losses), net in the consolidated income statement, included in which HK$49 million (2015: nil) was transferred from equity to consolidated income statement on impairment. This was a result of the estimated recoverable amount being lower than its carrying amount. The Groups do not hold any collateral over these securities.

## 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Listed securities | 25 | **44** |
| Less: Securities held for employee share award to be vested within one year classified as current assets | (14) | **(13)** |
| Non-current portion | 11 | **31** |

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, 2016, 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$636,000,008 | 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 |
| CSL Mobile Limited | Hong Kong | HK$7,900,280,100 ordinary shares and HK$1,254,000,000 non-voting deferred shares | – | 100% | Provision of mobile services to its customers, which is procured from HKTL, and the sale of mobile phones and accessories |
| Sun Mobile Limited | Hong Kong | HK$41,600,000 | – | 60%[1] | Provision of mobile telecommunications services to customers in Hong Kong |

## 24 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

**a. As at December 31, 2016, 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 |
|---|---|---|---|---|---|
| Gateway Global Communications Limited | United Kingdom | GBP1 | – | 100% | Provision of network-based telecommunications services to external customers and related companies |
| PCCW Global B.V. | Netherlands/ France | EUR18,000 | – | 100% | Sales, distribution and marketing of telecommunication services and products |
| PCCW Global, Inc. | Delaware, U.S. | 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$232,208,090.65 | – | 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 |
| Gateway Communications S.A.S. | France | EUR10,000 | – | 100% | Provision of wholesale voice and data services |
| Gateway Communications (Proprietary) Limited | South Africa | ZAR1,000 | – | 100% | Sales and distribution of integrated global communications solutions to customers in South Africa |
| HKT Global (Singapore) Pte. Ltd. | Singapore/ Malaysia | S$60,956,485.64 | – | 100% | Provision of telecommunications solutions related services |
| PCCW Global (Japan) K.K. | Japan | JPY10,000,000 | – | 100% | Provision of telecommunication service |

## 24 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

**a. As at December 31, 2016, 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 (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 |
| 廣州電盈綜合客戶服務技術發展有限公司[3] (PCCW Customer Management Technology and Services (Guangzhou) Limited[4]) | PRC | HK$93,240,000 | – | 100% | Customer service and consultancy |
| HKT Teleservices International Limited (formerly known as PCCW Teleservices (Hong Kong) Limited) | Hong Kong | HK$350,000,002 | – | 100% | Provision of customer relationship management and customer contact management solutions and services |
| Relish Networks plc | United Kingdom | GBP403,010.74 ordinary shares and GBP7,539,543 deferred shares (non-voting) | – | 100% | Provision of predominantly fixed network services to campus-based customers |

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

***Notes:***
1. The equity interest held by non-controlling interests is 40% as at December 31, 2016.
2. The equity interest held by non-controlling interests is 25% as at December 31, 2016.
3. Represents a wholly foreign owned enterprise.
4. Unofficial company name.

**b. Non-controlling interests of the Groups' subsidiaries**

The total non-controlling interests as at December 31, 2016 were HK$63 million (2015: HK$119 million), of which HK$51 million (2015: HK$53 million) was attributable to non-controlling interests in Sun Mobile Limited and PCCW (Macau), Limitada.

## 25 CURRENT ASSETS AND LIABILITIES

### a. Inventories

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Work-in-progress | 253 | **271** |
| Finished goods | 294 | **360** |
| Consumable inventories | 51 | **76** |
| | 598 | **707** |

### b. Trade receivables, net

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Trade receivables *(note (i))* | 3,590 | **3,225** |
| Less: Impairment loss for doubtful debts *(note (ii))* | (168) | **(190)** |
| Trade receivables, net | 3,422 | **3,035** |

#### i. The aging of trade receivables based on the date of invoice is set out below:

| In HK$ million | 2015 | **2016** |
|---|---|---|
| 1–30 days | 2,079 | **1,910** |
| 31–60 days | 579 | **394** |
| 61–90 days | 211 | **245** |
| 91–120 days | 167 | **137** |
| Over 120 days | 554 | **539** |
| | 3,590 | **3,225** |

## 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 | 2015 | **2016** |
|---|---|---|
| Beginning of year | 151 | **168** |
| Impairment loss recognized | 284 | **303** |
| Uncollectible amounts written off | (267) | **(281)** |
| End of year | 168 | **190** |

As at December 31, 2016, trade receivables of HK$190 million (2015: HK$168 million) were impaired. The individually impaired receivables mainly relate to customers that were in financial difficulties and management assessed that the receivables are not expected to be recovered. The Groups do not hold any collateral over these balances.

**iii. Trade receivables that are not impaired**

The aging of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Neither past due nor impaired | 1,676 | **1,611** |
| 1–30 days past due | 851 | **603** |
| 31–60 days past due | 269 | **145** |
| 61–90 days past due | 122 | **179** |
| Over 90 days past due | 504 | **497** |
| Past due but not considered impaired | 1,746 | **1,424** |
| | 3,422 | **3,035** |

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 (2015: HK$12 million).

## 25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

### c. Restricted cash

As at December 31, 2016, cash balance approximately HK$36 million (2015: HK$10 million) has been received from and restricted for the use of certain customers.

### d. Trade payables

The aging of trade payables based on the date of invoice is set out below:

| In HK$ million | 2015 | **2016** |
|---|---|---|
| 1–30 days | 1,410 | **1,557** |
| 31–60 days | 95 | **154** |
| 61–90 days | 79 | **82** |
| 91–120 days | 96 | **32** |
| Over 120 days | 514 | **649** |
| | 2,194 | **2,474** |

Included in trade payables of the Groups were the amounts due to related parties of HK$58 million (2015: HK$61 million).

### e. Short-term borrowings

| In HK$ million | 2015 | **2016** |
|---|---|---|
| US$500 million 4.25% guaranteed notes due 2016 | 3,879 | **–** |
| Secured | – | **–** |
| Unsecured | 3,879 | **–** |

**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 | 2015 | **2016** |
|---|---|---|
| Repayable within a period | | |
| – over one year, but not exceeding two years | 3,544 | **1,194** |
| – over two years, but not exceeding five years | 17,386 | **19,735** |
| – over five years | 11,506 | **17,264** |
| | 32,436 | **38,193** |
| Representing: | | |
| US$500 million 3.75% guaranteed notes due 2023 *(note (a))* | 3,711 | **3,736** |
| US$300 million zero coupon guaranteed notes due 2030 *(note (b))* | 2,308 | **2,311** |
| US$500 million 3.625% guaranteed notes due 2025 *(note (c))* | 3,821 | **3,829** |
| EUR200 million 1.65% guaranteed notes due 2027 *(note (d))* | 1,666 | **1,613** |
| US$750 million 3.00% guaranteed notes due 2026 *(note (e))* | – | **5,775** |
| Bank borrowings *(note (f))* | 20,930 | **20,929** |
| | 32,436 | **38,193** |
| Secured | – | **–** |
| Unsecured | 32,436 | **38,193** |

**a. 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.

**b. 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 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.

**c. 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.

**d. EUR200 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 EUR200 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.

## 26 LONG-TERM BORROWINGS *(CONTINUED)*

**e. US$750 million 3.00% guaranteed notes due 2026**

On July 14, 2016, HKT Capital No. 4 Limited, an indirect wholly-owned subsidiary of the Company, issued US$750 million 3.00% guaranteed notes due 2026, 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.

**f.** Please refer to note 38 for details of the Groups' bank loan facilities.

## 27 DERIVATIVE FINANCIAL INSTRUMENTS

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Non-current assets | | |
| Fixed-to-fixed cross currency swap and foreign exchange forward contracts – cash flow hedges *(note (a)&(b))* | – | **215** |
| Floating-to-fixed interest rate swap contract – cash flow hedges *(note (c))* | – | **62** |
| | – | **277** |
| Non-current liabilities | | |
| Fixed-to-fixed cross currency swap and foreign exchange forward contracts – cash flow hedges *(note (a)&(b))* | 443 | **14** |

**a.** Fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2016 with notional contract amounts of US$1,250 million (approximately HK$9,694 million) (2015: US$500 million (approximately HK$3,877 million)) were 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 USD/HKD exchange rate at 7.7544-7.7580 (2015: 7.7545-7.7550) 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.

As at December 31, 2016, the Groups had outstanding foreign exchange forward contracts with notional contract amounts of US$376 million (approximately HK$2,905 million) (2015: US$376 million (approximately HK$2,905 million)). 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 (2015: 7.733) 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 gain of approximately HK$15 million (2015: loss of approximately HK$15 million) for the year ended December 31, 2016.

As at December 31, 2016, the Groups had an outstanding fixed-to-fixed cross currency swap contract with notional contract amount of EUR200 million (approximately HK$1,665 million) (2015: EUR200 million (approximately HK$1,665 million)). The contract was designated as cash flow hedge of the foreign currency risk in the Groups' foreign currency denominated borrowings. Maturity of this swap contract matches with the maturity of the underlying borrowings and the Groups have fixed the EUR/HKD exchange rate at 8.3245 (2015: 8.3245) for the notional amount (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, no such gain/loss was recognized (2015: loss of approximately HK$17 million) for the year ended December 31, 2016.

## 27 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

**b.** As at December 31, 2016**,** the Groups had fixed-to-floating cross currency swap contracts with an aggregate notional contract amount of US$500 million (approximately HK$3,879 million) (2015: US$500 million (approximately HK$3,879 million)). Maturity of these swap contracts matches with the maturity of the underlying fixed rate borrowings and the Groups have fixed the USD/HKD exchange rate at 7.7570 (2015: 7.7570) for the notional amounts (see note 35(c)(i)). The Groups further entered into floating-to-fixed interest rate swap contracts with an aggregate notional amount of approximately HK$3,879 million (2015: approximately HK$3,879 million). Accordingly, the Groups had a synthetic fixed-to-fixed cross currency swap contract position and re-designated such swap contracts as cash flow hedges. 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 (2015: nil) for the year ended December 31, 2016.

**c.** During the year ended December 31, 2016, the Groups entered into a 5-year floating-to-fixed interest rate swap contract with notional contract amount of HK$1,500 million. The contract pre-determined the interest rate at a fixed level. The contract was designated as cash flow hedge of the interest rate risk in the Groups' floating rate borrowings (see note 35(c)(ii)). 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 gain of approximately HK$1 million (2015: nil) for the year ended December 31, 2016.

These swap and forward contracts were designated as cash flow hedges of the foreign currency risk in the Groups' foreign currency denominated borrowings or the interest rate risk in the Groups' borrowings at floating 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.

## 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 current 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 PCCW 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 and its subsidiaries ("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 5 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, 2016.

**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 board of director of the Trustee-Manager (the "Trustee-Manager Board") and the board of directors of the Company (the "Company Board") shall be entitled to offer to grant a Share Stapled Unit option to any eligible participant whom 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.

(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 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, 2016.

## 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 the 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.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Subscription Scheme for the years ended December 31, 2015 and 2016.

## 28 EMPLOYEE BENEFITS *(CONTINUED)*

**b. Equity compensation benefits** *(continued)*

**iii. Share Stapled Units Award Schemes of the Company** *(continued)*

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 2015 | **2016** |
|---|---|---|
| Beginning of year | 5,978,109 | **9,596,941** |
| Purchase from the market by the Trustee at weighted average market price of HK$9.92 per Share Stapled Unit | 9,326,000 | **–** |
| Share Stapled Units vested | (5,707,168) | **(4,399,558)*** |
| End of year | 9,596,941 | **5,197,383** |

* Included 1,302 Share Stapled Units vested during the year ended December 31, 2016 pursuant to the delegated authority of the relevant board committee on compassionate grounds.

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 date of award

| | 2015 | | **2016** | |
|---|---|---|---|---|
| | 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 | 8.89 | 12,995,117 | **9.27** | **8,155,710** |
| Awarded *(note (3))* | 10.30 | 1,572,820 | **10.89** | **2,160,944** |
| Forfeited *(note (4))* | 9.16 | (705,059) | **9.57** | **(154,141)** |
| Vested *(note (5))* | 8.70 | (5,707,168) | **9.19** | **(4,398,256)** |
| End of year *(note (2))* | 9.27 | 8,155,710 | **9.93** | **5,764,257** |

## 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 2015 | **2016** |
|---|---|---|---|---|
| April 11, 2014 | April 11, 2014 to April 11, 2016 | 8.26 | 718,558 | **–** |
| July 1, 2014 | July 1, 2014 to April 1, 2016 | 9.13 | 2,949,476 | **–** |
| July 1, 2014 | July 1, 2014 to April 1, 2017 | 9.13 | 2,948,821 | **2,881,371** |
| 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 | **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 | **749,315** |
| April 5, 2016 | April 5, 2016 to April 5, 2017 | 10.70 | – | **640,488** |
| April 5, 2016 | April 5, 2016 to April 5, 2018 | 10.70 | – | **639,494** |
| June 8, 2016 | June 8, 2016 to April 5, 2017 | 11.18 | – | **426,187** |
| June 8, 2016 | June 8, 2016 to April 5, 2018 | 11.18 | – | **426,187** |
| | | | 8,155,710 | **5,764,257** |

The unvested Share Stapled Units at December 31, 2016 had a weighted average remaining vesting period of 0.45 year (2015: 0.73 year).

(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 2015 | **2016** |
|---|---|---|---|---|
| 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 | **–** |
| April 5, 2016 | April 5, 2016 to April 5, 2017 | 10.70 | – | **654,800** |
| April 5, 2016 | April 5, 2016 to April 5, 2018 | 10.70 | – | **653,770** |
| June 8, 2016 | June 8, 2016 to April 5, 2017 | 11.18 | – | **426,187** |
| June 8, 2016 | June 8, 2016 to April 5, 2018 | 11.18 | – | **426,187** |
| | | | 1,572,820 | **2,160,944** |

## 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 2015 | **2016** |
|---|---|---|---|---|
| March 21, 2013 | March 21, 2013 to March 21, 2015 | 7.59 | 1,760 | **–** |
| April 11, 2014 | April 11, 2014 to April 11, 2015 | 8.26 | 4,041 | **–** |
| April 11, 2014 | April 11, 2014 to April 11, 2016 | 8.26 | 14,025 | **8,772** |
| July 1, 2014 | July 1, 2014 to April 1, 2015 | 9.13 | 188,004 | **–** |
| July 1, 2014 | July 1, 2014 to April 1, 2016 | 9.13 | 232,725 | **23,200** |
| July 1, 2014 | July 1, 2014 to April 1, 2017 | 9.13 | 232,613 | **67,450** |
| 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 | **7,665** |
| May 7, 2015 | May 7, 2015 to May 7, 2017 | 10.30 | 15,075 | **18,466** |
| April 5, 2016 | April 5, 2016 to April 5, 2017 | 10.70 | – | **14,312** |
| April 5, 2016 | April 5, 2016 to April 5, 2018 | 10.70 | – | **14,276** |
| | | | 705,059 | **154,141** |

(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 2015 | **2016** |
|---|---|---|---|---|
| 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 | **–** |
| April 11, 2014 | April 11, 2014 to April 11, 2016 | 8.26 | – | **709,786** |
| July 1, 2014 | July 1, 2014 to April 1, 2015 | 9.13 | 3,808,265 | **–** |
| July 1, 2014 | July 1, 2014 to April 1, 2016 | 9.13 | – | **2,926,276** |
| 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 | – | **1,215** |
| May 7, 2015 | May 7, 2015 to May 7, 2016 | 10.30 | – | **760,979** |
| | | | 5,707,168 | **4,398,256** |

The fair value of the Share Stapled Units awarded during the year at the dates of award are measured by the quoted market price of the Share Stapled Units at the respective award dates.

During the year ended December 31, 2016, share-based compensation expenses of HK$33 million (2015: HK$48 million) is recognized for the Share Stapled Units Award Schemes in the consolidated income statement and employee share-based compensation reserve in the consolidated statement of financial position, respectively.

## 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 companies. Eligible participants of the Subscription Scheme include employees of PCCW and its participating companies, 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 "PCCW 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 PCCW 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 PCCW 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 (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 original 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 | |
|---|---|---|
| | 2015 | **2016** |
| Beginning of year | 7,393,665 | **5,449,041** |
| Purchase from the market by the Trustee at weighted average market price of HK$4.99 per PCCW share | 1,600,000 | **–** |
| PCCW shares obtained under the PCCW Subscription Scheme | – | **7,500,000** |
| PCCW shares vested | (3,543,570) | **(3,030,881)*** |
| Transfer to grantees in lieu of cash dividends | (1,054) | **–** |
| End of year | 5,449,041 | **9,918,160** |

* Included 1,473 PCCW Shares vested during the year ended December 31, 2016 pursuant to the delegated authority of the relevant board committee on compassionate grounds.

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 at date of award

| | 2015 | | **2016** | |
|---|---|---|---|---|
| | 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 | 3.72 | 2,659,132 | **5.01** | **1,428,837#** |
| Awarded *(note (3))* | 5.35 | 1,042,482 | **5.17** | **2,286,122** |
| Forfeited *(note (4))* | 3.62 | (2,517) | **N/A** | **–** |
| Vested *(note (5))* | 3.68 | (2,298,835) | **4.81** | **(893,312)** |
| End of year *(note (2))* | 5.00 | 1,400,262 | **5.20** | **2,821,647** |
| The PCCW Subscription Scheme: | | | | |
| Beginning of year | 3.99 | 2,515,253 | **4.83** | **3,147,962#** |
| Awarded *(note (3))* | 5.35 | 2,033,480 | **5.01** | **2,523,480** |
| Forfeited *(note (4))* | 4.62 | (127,461) | **4.96** | **(151,303)** |
| Vested *(note (5))* | 3.99 | (1,244,735) | **4.60** | **(2,136,096)** |
| End of year *(note (2))* | 4.84 | 3,176,537 | **5.10** | **3,384,043** |
| Total | | 4,576,799 | | **6,205,690** |

# During the year ended December 31, 2016, 28,575 PCCW Shares awarded on May 7, 2015 under the Subscription Scheme were re-designated as awarded under the Purchase Scheme.

## 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 2015 | **2016** |
|---|---|---|---|---|
| The PCCW Purchase Scheme: | | | | |
| 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 | **535,525** |
| April 5, 2016 | April 5, 2016 to April 5, 2017 | 5.01 | – | **197,799** |
| April 5, 2016 | April 5, 2016 to April 5, 2018 | 5.01 | – | **197,791** |
| June 8, 2016 | June 8, 2016 to April 5, 2017 | 5.20 | – | **945,266** |
| June 8, 2016 | June 8, 2016 to April 5, 2018 | 5.20 | – | **945,266** |
| | | | 1,400,262 | **2,821,647** |
| The PCCW Subscription Scheme: | | | | |
| April 11, 2014 | April 11, 2014 to April 11, 2016 | 3.99 | 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 | **936,146** |
| April 5, 2016 | April 5, 2016 to April 5, 2017 | 5.01 | – | **1,222,917** |
| April 5, 2016 | April 5, 2016 to April 5, 2018 | 5.01 | – | **1,221,936** |
| June 8, 2016 | June 8, 2016 to April 5, 2017 | 5.20 | – | **1,522** |
| June 8, 2016 | June 8, 2016 to April 5, 2018 | 5.20 | – | **1,522** |
| | | | 3,176,537 | **3,384,043** |
| Total | | | 4,576,799 | **6,205,690** |

The PCCW shares unvested at December 31, 2016 had a weighted average remaining vesting period of 0.68 years (2015: 0.66 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 2015 | **2016** |
|---|---|---|---|---|
| The PCCW Purchase Scheme: | | | | |
| 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 | **–** |
| April 5, 2016 | April 5, 2016 to April 5, 2017 | 5.01 | – | **197,799** |
| April 5, 2016 | April 5, 2016 to April 5, 2018 | 5.01 | – | **197,791** |
| June 8, 2016 | June 8, 2016 to April 5, 2017 | 5.20 | – | **945,266** |
| June 8, 2016 | June 8, 2016 to April 5, 2018 | 5.20 | – | **945,266** |
| | | | 1,042,482 | **2,286,122** |
| The PCCW Subscription Scheme: | | | | |
| 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 | **–** |
| April 5, 2016 | April 5, 2016 to April 5, 2017 | 5.01 | – | **1,260,728** |
| April 5, 2016 | April 5, 2016 to April 5, 2018 | 5.01 | – | **1,259,708** |
| June 8, 2016 | June 8, 2016 to April 5, 2017 | 5.20 | – | **1,522** |
| June 8, 2016 | June 8, 2016 to April 5, 2018 | 5.20 | – | **1,522** |
| | | | 2,033,480 | **2,523,480** |
| Total | | | 3,075,962 | **4,809,602** |

## 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 2015 | **2016** |
|---|---|---|---|---|
| The PCCW Purchase Scheme: | | | | |
| March 21, 2013 | March 21, 2013 to March 21, 2015 | 3.62 | 2,517 | **–** |
| | | | 2,517 | **–** |
| The PCCW Subscription Scheme: | | | | |
| April 11, 2014 | April 11, 2014 to April 11, 2015 | 3.99 | 13,137 | **–** |
| April 11, 2014 | April 11, 2014 to April 11, 2016 | 3.99 | 55,088 | **24,411** |
| May 7, 2015 | May 7, 2015 to May 7, 2016 | 5.35 | 29,641 | **15,040** |
| May 7, 2015 | May 7, 2015 to May 7, 2017 | 5.35 | 29,595 | **36,269** |
| April 5, 2016 | April 5, 2016 to April 5, 2017 | 5.01 | – | **37,811** |
| April 5, 2016 | April 5, 2016 to April 5, 2018 | 5.01 | – | **37,772** |
| | | | 127,461 | **151,303** |
| Total | | | 129,978 | **151,303** |

(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 2015 | **2016** |
|---|---|---|---|---|
| The PCCW Purchase Scheme: | | | | |
| 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 | **–** |
| 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 | – | **535,532** |
| | | | 2,298,835 | **893,312** |
| The PCCW Subscription Scheme: | | | | |
| April 11, 2014 | April 11, 2014 to April 11, 2015 | 3.99 | 1,244,735 | **–** |
| April 11, 2014 | April 11, 2014 to April 11, 2016 | 3.99 | – | **1,177,882** |
| May 7, 2015 | May 7, 2015 to May 7, 2016 | 5.35 | – | **958,214** |
| | | | 1,244,735 | **2,136,096** |

The fair value of the PCCW shares awarded during the year at the dates of award are measured by the quoted market price of the PCCW shares at the respective award dates.

During the year ended December 31, 2016, share-based compensation expenses of HK$20 million (2015: HK$12 million) is recognized in the consolidated income statement and an obligation in liabilities in the consolidated statement of financial position, respectively.

## 29 EQUITY OF HKT LIMITED

| | 2015 | | **2016** | |
|---|---|---|---|---|
| | Number of shares | Nominal value HK$ | **Number of shares** | **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 | | | | |
| Beginning and end of year | 7,571,742,334 | 3,785,871 | **7,571,742,334** | **3,785,871** |
| Preference shares of HK$0.0005 each | | | | |
| Beginning and end of year | 7,571,742,334 | 3,785,871 | **7,571,742,334** | **3,785,871** |

Movements in reserves of the Company during the years ended December 31, 2015 and 2016 are as follows:

| | | 2015 | |
|---|---|---|---|
| In HK$ million | Share premium | Retained profits | Total |
| At January 1, 2015 | 35,113 | 67 | 35,180 |
| Total comprehensive income for the year | – | 3,743 | 3,743 |
| Dividend paid in respect of the previous year | – | (1,764) | (1,764) |
| Interim dividend paid in respect of current year | – | (1,953) | (1,953) |
| At December 31, 2015 | 35,113 | 93 | 35,206 |

| | | **2016** | |
|---|---|---|---|
| In HK$ million | **Share premium** | **Retained profits** | **Total** |
| At January 1, 2016 | **35,113** | **93** | **35,206** |
| Total comprehensive income for the year | **–** | **4,221** | **4,221** |
| Dividend paid in respect of the previous year | **–** | **(2,141)** | **(2,141)** |
| Interim dividend paid in respect of current year | **–** | **(2,051)** | **(2,051)** |
| At December 31, 2016 | **35,113** | **122** | **35,235** |

## 30 RESERVES

| In HK$ million | Share Premium | Capital contribution reserve | Currency translation reserve | Merger reserve | Hedging reserve | Other reserves | Equity compensation reserve | Treasury stock | Retained profits | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2015 | | | | | |
| **At January 1, 2015** | 7,769 | 26,250 | 213 | (347) | 72 | (3) | 49 | (45) | 3,966 | 37,924 |
| **Comprehensive income/(loss)** | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | – | 3,949 | 3,949 |
| Other comprehensive income/(loss) | | | | | | | | | | |
| *Items that have been reclassified or 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 to consolidated income statement | – | – | – | – | (77) | – | – | – | – | (77) |
| **Total comprehensive income/(loss) 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 |

## 30 RESERVES *(CONTINUED)*

| In HK$ million | 2016 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, 2016** | 7,769 | 26,250 | 104 | (347) | (268) | (57) | 42 | (87) | 4,202 | 37,608 |
| **Comprehensive income/(loss)** | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | – | 4,889 | 4,889 |
| Other comprehensive income/(loss) | | | | | | | | | | |
| *Items that have been reclassified or may be reclassified subsequently to consolidated income statement:* | | | | | | | | | | |
| Exchange differences on translating foreign operations | – | – | (92) | – | – | – | – | – | – | (92) |
| Available-for-sale financial assets: | | | | | | | | | | |
| – changes in fair value *(note 22)* | – | – | – | – | – | (2) | – | – | – | (2) |
| – transfer to consolidated income statement on impairment | – | – | – | – | – | 49 | – | – | – | 49 |
| Cash flow hedges: | | | | | | | | | | |
| – effective portion of changes in fair value | – | – | – | – | 711 | – | – | – | – | 711 |
| – transfer to consolidated income statement | – | – | – | – | 48 | – | – | – | – | 48 |
| **Total comprehensive income/(loss) for the year** | – | – | (92) | – | 759 | 47 | – | – | 4,889 | 5,603 |
| **Transactions with equity holders** | | | | | | | | | | |
| *Contributions by and distributions to equity holders:* | | | | | | | | | | |
| Employee share-based compensation | – | – | – | – | – | – | 33 | – | – | 33 |
| Vesting of Share Stapled Units under the Share Stapled Units Award Schemes | – | – | – | – | – | – | (37) | 40 | (3) | – |
| Distribution/Dividend paid in respect of the previous year | – | – | – | – | – | – | (1) | – | (2,140) | (2,141) |
| Interim distribution/dividend declared and paid in respect of the current year | – | – | – | – | – | – | (1) | – | (2,050) | (2,051) |
| Receipt of PCCW shares under the PCCW Subscription Scheme | – | – | – | – | – | 36 | – | – | – | 36 |
| **Total transactions with equity holders** | – | – | – | – | – | 36 | (6) | 40 | (4,193) | (4,123) |
| **At December 31, 2016** | 7,769 | 26,250 | 12 | (347) | 491 | 26 | 36 | (47) | 4,898 | 39,088 |

## 31 DEFERRED INCOME TAX

**a. Movements in deferred income tax liabilities/(assets) during the year are as follows:**

| In HK$ million | Accelerated tax depreciation and amortization | Tax losses | Others | Total |
|---|---|---|---|---|
| | 2015 | | | |
| 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 | **Accelerated tax depreciation and amortization** | **Tax losses** | **Others** | **Total** |
|---|---|---|---|---|
| | **2016** | | | |
| Beginning of year | **2,544** | **(233)** | **10** | **2,321** |
| Charged/(credited)to the consolidated income statement *(note 13(a))* | **173** | **(85)** | **(15)** | **73** |
| Exchange differences | **–** | **2** | **–** | **2** |
| End of year | **2,717** | **(316)** | **(5)** | **2,396** |

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Deferred income tax assets: | | |
| – to be recovered after more than 12 months | (74) | **(297)** |
| – to be recovered within 12 months | (157) | **(20)** |
| Deferred income tax assets recognized in the consolidated statement of financial position | (231) | **(317)** |
| Deferred income tax liabilities: | | |
| – to be recovered after more than 12 months | 2,279 | **2,535** |
| – to be recovered within 12 months | 273 | **178** |
| Deferred income tax liabilities recognized in the consolidated statement of financial position | 2,552 | **2,713** |
| Deferred income tax liabilities (net) | 2,321 | **2,396** |

## 31 DEFERRED INCOME TAX *(CONTINUED)*

**b.** As at December 31, 2016, the Groups had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$3,389 million (2015: HK$3,600 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$6 million (2015: HK$4 million) will expire within 1 to 5 years. Estimated adjusted tax losses of HK$168 million will expire after 5 years (2015: HK$804 million). The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

Deferred income tax assets had been recognized for tax loss carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable.

## 32 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2016, the Groups had carrier licence fee liabilities payable as follows:

| | 2015 | | | **2016** | | |
|---|---|---|---|---|---|---|
| In HK$ million | 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** |
| Payable within a period | | | | | | |
| – not exceeding one year | 452 | 30 | 482 | **173** | **7** | **180** |
| – over one year, but not exceeding two years | 123 | 19 | 142 | **123** | **19** | **142** |
| – over two years, but not exceeding five years | 312 | 112 | 424 | **312** | **112** | **424** |
| – over five years | 192 | 100 | 292 | **109** | **41** | **150** |
| | 1,079 | 261 | 1,340 | **717** | **179** | **896** |
| Less: Amounts payable within one year included under current liabilities | (452) | (30) | (482) | **(173)** | **(7)** | **(180)** |
| | 627 | 231 | 858 | **544** | **172** | **716** |

## 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 | 2015 | **2016** |
|---|---|---|
| Profit before income tax | 4,586 | **5,698** |
| Adjustments for: | | |
| Finance costs, net | 1,310 | **1,107** |
| Net gains on cash flow hedging instruments transferred from equity | (67) | **–** |
| Net gain on fair value hedging instruments | (48) | **(4)** |
| Other loss | 2 | **1** |
| Gain on disposal of property, plant and equipment, net | (5) | **(3)** |
| Provision for inventory obsolescence | 8 | **6** |
| Impairment loss for doubtful debts | 284 | **303** |
| Depreciation of property, plant and equipment | 1,854 | **1,432** |
| Amortization of intangible assets | 4,335 | **4,364** |
| Amortization of land lease premium | 13 | **12** |
| Share of results of joint ventures | (2) | **10** |
| Share of results of associates | 27 | **13** |
| Provision for impairment on an available-for-sale financial asset | – | **54** |
| Provision for impairment on an interest in an associate | 95 | **–** |
| Share-based compensation expenses | 48 | **53** |
| Increase in treasury stock for equity compensation scheme | (93) | **–** |
| Decrease/(increase) in operating assets | | |
| – inventories | 16 | **(44)** |
| – trade receivables, prepayments, deposits and other current assets | (275) | **(643)** |
| – restricted cash | (10) | **(26)** |
| – amounts due from related companies | 56 | **–** |
| – other non-current assets | 9 | **20** |
| (Decrease)/increase in operating liabilities | | |
| – trade payables, accruals and other payables | (483) | **511** |
| – other long-term liabilities | (1) | **(15)** |
| – advances from customers | 58 | **60** |
| – amounts due to related companies | (40) | **(51)** |
| – deferred income (non-current) | 46 | **(58)** |
| **Cash generated from operations** | 11,723 | **12,800** |
| Interest received | 11 | **13** |
| Income tax paid, net of tax refund | | |
| – Hong Kong profits tax paid | (311) | **(499)** |
| – Overseas profits tax paid | (54) | **(52)** |
| **Net cash generated from operating activities** | 11,369 | **12,262** |

## 33 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS *(CONTINUED)*

### b. Cash flows for business combinations

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Purchase consideration | 198 | – |
| Net assets acquired: | | |
| Property, plant and equipment | 56 | – |
| Intangible assets | 12 | – |
| Trade receivables, prepayments, deposits and other current assets | 17 | – |
| Cash and cash equivalents | 1 | – |
| Trade payables, accruals, other payables and advances from customers | (41) | – |
| Deferred income tax assets | 8 | – |
| | 53 | – |
| Goodwill on acquisition | 145 | – |
| Analysis of net outflow of cash and cash equivalents in respect of business combinations: | | |
| Purchase consideration | 172 | – |
| Add: Settlement of obligation assumed upon business combination | 26 | – |
| Less: Consideration payable | (4) | – |
| | 194 | – |
| Cash and cash equivalents of subsidiaries acquired | (1) | – |
| Net outflow | 193 | – |
| Settlement of contingent consideration in respect of business combination in prior year | 77 | – |

### c. Analysis of cash and cash equivalents

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Total cash and bank balances | 3,778 | **3,368** |
| Less: Short-term deposits | – | **(450)** |
| Restricted cash | (10) | **(36)** |
| Cash and cash equivalents as at December 31, | 3,768 | **2,882** |

## 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 minimum capital requirement of a subsidiary regulated by the Bermuda Monetary Authority and a minimum capital requirement as a condition for a stored value facilities licence granted by the Hong Kong Monetary Authority to a subsidiary of the Groups.

## 35 FINANCIAL INSTRUMENTS

The table below analyses financial instruments by category:

| | 2015 | | |
|---|---|---|---|
| In HK$ million | Loans and receivables | Assets at fair value through profit or loss | 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 |
| Amounts 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 |

## 35 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category: *(continued)*

| In HK$ million | Derivatives used for hedging | 2015<br>Other financial liabilities at amortized cost | 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)*

The table below analyses financial instruments by category: *(continued)*

| In HK$ million | Loans and receivables | Assets at fair value through profit or loss | 2016 Available-for-sale financial assets | Derivative used for hedging | Total |
|---|---|---|---|---|---|
| Non-current assets | | | | | |
| Financial assets at fair value through profit or loss | – | 31 | – | – | 31 |
| Available-for-sale financial assets | – | – | 77 | – | 77 |
| Derivative financial instruments | – | – | – | 277 | 277 |
| Other non-current assets | 138 | – | – | – | 138 |
| | 138 | 31 | 77 | 277 | 523 |
| Current assets | | | | | |
| Prepayments, deposits and other current assets (excluding prepayments) | 4,592 | – | – | – | 4,592 |
| Trade receivables, net | 3,035 | – | – | – | 3,035 |
| Financial assets at fair value through profit or loss | – | 13 | – | – | 13 |
| Amounts due from related companies | 96 | – | – | – | 96 |
| Restricted cash | 36 | – | – | – | 36 |
| Short-term deposits | 450 | – | – | – | 450 |
| Cash and cash equivalents | 2,882 | – | – | – | 2,882 |
| | 11,091 | 13 | – | – | 11,104 |
| Total | 11,229 | 44 | 77 | 277 | 11,627 |

| In HK$ million | Derivatives used for hedging | 2016 Other financial liabilities at amortized cost | Total |
|---|---|---|---|
| Current liabilities | | | |
| Trade payables | – | 2,474 | 2,474 |
| Accruals and other payables | – | 5,006 | 5,006 |
| Carrier licence fee liabilities | – | 173 | 173 |
| Amounts due to a related company | – | 37 | 37 |
| Amounts due to fellow subsidiaries | – | 465 | 465 |
| | – | 8,155 | 8,155 |
| Non-current liabilities | | | |
| Long-term borrowings | – | 38,193 | 38,193 |
| Derivative financial instruments | 14 | – | 14 |
| Carrier licence fee liabilities | – | 544 | 544 |
| Other long-term liabilities | – | 420 | 420 |
| | 14 | 39,157 | 39,171 |
| Total | 14 | 47,312 | 47,326 |

## 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, amounts due from related companies, interest receivable, foreign exchange and swap contracts and cash transactions entered into for risk and cash management purposes. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

Trade receivables 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, 2015 and 2016, 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, provision for impairment loss is made for estimated irrecoverable amounts. As at December 31, 2015 and 2016, 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 Groups are subject to certain corporate guarantee obligations to guarantee performance of the subsidiaries in the normal course of their businesses. 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 Groups can be required to pay:

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| In HK$ million | 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) |

## 35 FINANCIAL INSTRUMENTS *(CONTINUED)*

### b. Liquidity risk *(continued)*

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| In HK$ million | 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 | | | | | | |
| Trade payables | (2,474) | – | – | – | (2,474) | (2,474) |
| Accruals and other payables | (5,006) | – | – | – | (5,006) | (5,006) |
| Carrier licence fee liabilities | (180) | – | – | – | (180) | (173) |
| Amounts due to a related company | (37) | – | – | – | (37) | (37) |
| Amounts due to fellow subsidiaries | (465) | – | – | – | (465) | (465) |
| | (8,162) | – | – | – | (8,162) | (8,155) |
| Non-current liabilities | | | | | | |
| Long-term borrowings *(note (iii))* | (796) | (1,971) | (21,726) | (21,240) | (45,733) | (38,193) |
| Derivative financial instruments | (37) | (36) | (104) | 216 | 39 | (14) |
| Carrier licence fee liabilities | – | (142) | (424) | (150) | (716) | (544) |
| Other long-term liabilities *(note (ii))* | (37) | – | (7) | (1,021) | (1,065) | (420) |
| | (870) | (2,149) | (22,261) | (22,195) | (47,475) | (39,171) |
| Total | (9,032) | (2,149) | (22,261) | (22,195) | (55,637) | (47,326) |

(i) As at December 31, 2015, derivative financial instruments of HK$16 million related to the foreign exchange forward contracts with notional contract amounts of US$376 million (approximately HK$2,905 million) 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(b) and note 27(a) for details of the guaranteed notes and the foreign exchange forward contract respectively. As at December 31, 2016, the carrying value of the above derivative financial instruments of HK$37 million were included in non-current assets.

(ii) As at December 31, 2016, other long-term liabilities included HK$102 million (2015: HK$47 million) of long term interest payable, which related to interest drawn under an 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 amount of EUR200 million (approximately HK$1,665 million) (2015: EUR200 million (approximately HK$1,665 million)). Please refer to note 26(d) and note 27(a) for details of the guaranteed notes and the fixed-to-fixed cross currency swap contract respectively.

(iii) As at December 31, 2016, bank borrowings of HK$1,950 million (2015: nil) included in long-term borrowings was drawn for financing a 15-year 3G spectrum utilization fee paid upfront by the Groups during the year.

## 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, interest rate swap contracts, foreign exchange forward 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 Board, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Groups.

In the normal course of business, the Groups use the above-mentioned financial instruments to limit the 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, 2016, all of the Groups' borrowings denominated in United States dollars/Euro were swapped into Hong Kong dollars by cross currency swap and foreign exchange forward contracts. Given this, management does not expect that there will be any significant foreign currency risk associated with the Groups' borrowings. The cross currency swap and foreign exchange forward contracts outstanding as at December 31, 2016 with an aggregate notional contract amount of US$2,126 million (approximately HK$16,478 million) (2015: US$1,376 million (approximately HK$10,661 million)) and EUR200 million (approximately HK$1,665 million) (2015: EUR200 million (approximately HK$1,665 million)) 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 or forward 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 monetary assets or liabilities denominated in foreign currencies.

| In HK$ million | 2015 United States Dollars | 2015 Euro | 2015 Renminbi | **2016 United States Dollars** | **2016 Euro** | **2016 Renminbi** |
|---|---|---|---|---|---|---|
| Trade receivables | 1,400 | 197 | 139 | **1,033** | **168** | **165** |
| Amounts due from related companies | – | – | 8 | **–** | **–** | **7** |
| Cash and cash equivalents | 546 | 37 | 94 | **1,061** | **51** | **68** |
| Trade payables | (1,474) | (61) | (40) | **(1,680)** | **(153)** | **(36)** |
| Amounts due to related companies | (72) | – | – | **(33)** | **–** | **–** |
| Short-term borrowings | (3,879) | – | – | **–** | **–** | **–** |
| Long-term borrowings | (9,840) | (1,666) | – | **(15,651)** | **(1,613)** | **–** |
| Gross exposure arising from monetary (liabilities)/assets | (13,319) | (1,493) | 201 | **(15,270)** | **(1,547)** | **204** |
| Net monetary assets denominated in respective entities' functional currencies | (202) | (52) | (212) | **(111)** | **(78)** | **(215)** |
| Borrowings with hedging instruments | 9,840 | 1,666 | – | **15,651** | **1,613** | **–** |
| Overall net exposure | (3,681) | 121 | (11) | **270** | **(12)** | **(11)** |

## 35 FINANCIAL INSTRUMENTS *(CONTINUED)*

### c. Market risk *(continued)*

#### i. Foreign currency risk *(continued)*

As at December 31, 2016, if the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the profit after tax of the Groups would have increased/decreased by approximately HK$2 million (2015: decreased/increased by approximately HK$31 million), mainly as a result of foreign exchange gains/losses (2015: losses/gains) on translation of United States dollar denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2016 would have decreased/increased by approximately HK$157 million (2015: HK$98 million) mainly as a result of foreign exchange losses/gains on the short-term and long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

As at December 31, 2016, if the Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, there would be no material impact on the Groups' profit after tax (2015: no material impact).

As at December 31, 2016, if the Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant, the profit after tax of the Groups would have decreased/increased by approximately HK$1 million (2015: increased/decreased by approximately HK$5 million), mainly as a result of foreign exchange losses/gains (2015: gains/losses) on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2016 would have decreased/increased by approximately HK$81 million (2015: HK$83 million) mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by a cross currency swap contract.

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 monetary assets and liabilities in existence at the date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the 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, 2015 and 2016.

## 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 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 pay interest at floating rate.

The Groups had fixed-to-floating cross currency swap contracts to manage the fair value interest rate risk arising from certain fixed rate long-term borrowings. The Groups further 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 Groups also entered into a floating-to-fixed interest rate swap contract which was designated as cash flow hedge, to hedge the interest rate risk arising from the Groups' certain floating rate borrowings.

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 and interest rate swap contracts designated as cash flow hedging instruments.

| | 2015 | | **2016** | |
|---|---|---|---|---|
| | Effective interest rate % | HK$ million | **Effective interest rate %** | **HK$ million** |
| Net fixed rate borrowings: | | | | |
| Long-term bank borrowings with hedging instruments | – | – | **1.84** | **1,484** |
| Short-term borrowings | 3.17 | 3,879 | **–** | **–** |
| Long-term borrowings with hedging instruments | 4.02 | 11,506 | **3.51** | **17,264** |
| Variable rate borrowings: | | | | |
| Long-term bank borrowings | 1.57 | 20,930 | **1.46** | **19,445** |
| Total borrowings | | 36,315 | | **38,193** |

As at December 31, 2016, if interest rates on variable rate borrowings had increased/decreased by 50 basis points (2015: 20 basis points) with all other variables held constant, the Groups' profit after tax would have decreased/increased by approximately HK$60 million (2015: HK$27 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 50 basis points (2015: 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 was performed on the same methodology for 2015 and 2016.

## 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). Other than unquoted equity securities held for strategic purpose, other investments are listed on recognized stock exchange markets.

Given the insignificant portfolio of listed equity securities held by the Groups, management believes that the Groups' equity price risk is minimal.

Performance of the Groups' unquoted investments held for long term strategic purposes is assessed at least semi-annually against performance of their business as well as similar listed entities, based on the limited information available to the Groups, together with an assessment of their relevance to the Groups long term strategic plans.

**d. Fair values of financial liabilities measured at amortized cost**

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2015 and 2016 except as follows:

| In HK$ million | 2015 Carrying amount | 2015 Fair value | **2016 Carrying amount** | **2016 Fair value** |
|---|---|---|---|---|
| Short-term borrowings | 3,879 | 3,890 | **–** | **–** |
| Long-term borrowings | 32,436 | 32,600 | **38,193** | **37,876** |

The fair values of short-term and long-term borrowings are the net present value of the estimated future cash flows discounted at the prevailing market rates. The fair values are within level 2 of the fair value hierarchy (see note 35(e)).

**e. Estimation of fair values**

The tables 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 included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for asset or liability that are not based on observable market data (level 3).

## 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 | 2015 Level 1 | 2015 Level 2 | 2015 Level 3 | 2015 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) |

| In HK$ million | **2016 Level 1** | **2016 Level 2** | **2016 Level 3** | **2016 Total** |
|---|---|---|---|---|
| Assets | | | | |
| Available-for-sale financial assets | | | | |
| – Unlisted equity securities | **–** | **–** | **77** | **77** |
| Derivative financial instruments | **–** | **277** | **–** | **277** |
| Financial assets at fair value through profit or loss | **44** | **–** | **–** | **44** |
| Total assets | **44** | **277** | **77** | **398** |
| Liabilities | | | | |
| Derivative financial instruments | **–** | **(14)** | **–** | **(14)** |

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 values of financial instruments that are not traded in an active market are determined by using valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. Instruments included in level 2 comprise cross currency swap contracts, interest rate swap contracts and foreign exchange forward contracts. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates. The fair value of the foreign exchange forward contracts is calculated based on the prevailing market foreign currency exchange rates quoted for contracts with same notional amounts adjusted for maturity differences.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. During the year ended December 31, 2016, a wholly-owned subsidiary of the Groups acquired an unlisted available-for-sale financial instrument amounted to HK$77 million, which is included in the level 3 category.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2015 and 2016.

### f. Groups' valuation process

The Groups' finance department includes a team that performs the valuations of financial assets required for financial reporting purposes, including level 3 fair value. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

For unlisted securities or financial assets without an active market, the Group establish the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the consolidated statement of financial position at cost less impairment losses.

## 36 COMMITMENTS

### a. Capital

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Authorized and contracted for acquisition of property, plant and equipment | 635 | **645** |

### b. Operating leases

As at December 31, 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

**Land and buildings**

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Within 1 year | 1,023 | **1,066** |
| After 1 year but within 5 years | 807 | **625** |
| After 5 years | 3 | **2** |
| | 1,833 | **1,693** |

Majority of the leases typically run for a period of 1 to 9 years as at December 31, 2016 (2015: 1 to 9 years). None of the leases include material contingent rentals.

**Network capacity and equipment**

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Within 1 year | 1,134 | **937** |
| After 1 year but within 5 years | 807 | **844** |
| After 5 years | 266 | **299** |
| | 2,207 | **2,080** |

Majority of the leases typically run for a period of 1 to 15 years as at December 31, 2016 (2015: 1 to 9 years). None of the leases include material contingent rentals.

## 36 COMMITMENTS *(CONTINUED)*

### c. Others

As at December 31, 2016, the Groups have other outstanding commitments as follows:

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Operating expenditure commitment | 2,171 | **214** |
| | 2,171 | **214** |

## 37 CONTINGENT LIABILITIES

| In HK$ million | 2015 | **2016** |
|---|---|---|
| Performance guarantees | 2,108 | **513** |
| Guarantees given to banks in respect of credit facilities granted to an associate | 60 | **56** |
| Others | 5 | **1** |
| | 2,173 | **570** |

The Groups are subject to certain corporate guarantee obligations to guarantee performance of the 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, 2016 was HK$27,181 million (2015: HK$26,671 million) of which the unused facilities amounted to HK$6,038 million (2015: HK$5,527 million).

All of the Groups' banking facilities are subject to the fulfillment of covenants relating to certain of the Groups' consolidated 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, 2016, 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 short-term and long-term borrowings are set out in notes 25(e) and 26 respectively.

## 39 BUSINESS COMBINATIONS

**a. Business combinations during the year ended December 31, 2016**

There was no business combination transaction occurred for the year ended December 31, 2016.

**b. Business combinations during the year ended December 31, 2015**

**(i) Acquisition of Keycom plc (now known as Relish Networks plc) and its subsidiaries (together "Relish")**

On April 7, 2015, the Groups acquired approximately 92.9 per cent of the then issued ordinary share capital of Relish Networks plc and increased their interest to 100 per cent by the end of June 2015 for a total consideration of approximately GBP16.6 million (approximately HK$196 million). Relish Networks plc is a company engaged in the provision of predominantly fixed network services to campus-based customers in the United Kingdom. A payment of approximately GBP16.3 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 has been finalized. The fair values of the acquirees' identifiable assets, liabilities and contingent liabilities are concluded to be the same as their provisional amounts as at acquisition date. As a result, no adjustment to the provisional amounts and goodwill for the year ended December 31, 2016 is required.

## 39 BUSINESS COMBINATIONS *(CONTINUED)*

**b. Business combinations during the year ended December 31, 2015** *(continued)*

**(i) Acquisition of Keycom plc (now known as Relish Networks plc) and its subsidiaries (together "Relish")** *(continued)*

(i) Details of net assets acquired and goodwill in respect of the acquisition of Relish 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: 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.

None of the goodwill is expected to be deductible for tax purposes.

The assets and liabilities of Relish at the acquisition date were as follows:

| In HK$ million | 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 |
| Less: Cash and cash equivalents acquired | (1) |
| Total net cash outflow for the year ended December 31, 2015 | 191 |

## 39 BUSINESS COMBINATIONS *(CONTINUED)*

**b. Business combinations during the year ended December 31, 2015** *(continued)*

**(i) Acquisition of Keycom plc (now known as Relish Networks plc) and its subsidiaries (together "Relish")** *(continued)*

(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

Relish's revenue and loss attributable to equity holders for the period from January 1, 2015 to the acquisition date were HK$24 million and HK$2 million, respectively. The business of Relish has been integrated into the Groups since the acquisition date. Accordingly, it is not practical to quantify the individual contribution of Relish 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.

## 40 POSSIBLE IMPACT OF AMENDMENTS AND NEW OR AMENDED STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2016

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments and new or amended standards which are not yet effective for the accounting period ended December 31, 2016 and which have not been early adopted in these financial statements:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| HKAS 7 (Amendment) | Statement of Cash Flows | January 1, 2017 |
| HKAS 12 (Amendment) | Income Taxes | January 1, 2017 |
| HKFRS 2 (Amendment) | Share-based Payment | January 1, 2018 |
| HKFRS 15 | Revenue from Contracts with Customers | January 1, 2018 |
| HKFRS 9 (2014) | Financial Instruments | January 1, 2018 |
| HKFRS 16 | Leases | January 1, 2019 |

Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2016 and have not been early adopted in these financial statements.

## 40 POSSIBLE IMPACT OF AMENDMENTS AND NEW OR AMENDED STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2016 *(CONTINUED)*

None of the above is expected to have a significant effect on the consolidated financial statements of the Groups, except the following set out below:

**HKFRS 15, "Revenue from Contracts with Customers"**

The application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognized as an asset under HKFRS 15. At this stage, the Groups are in the process of assessing the impact of HKFRS 15 on the Groups' financial statements.

**HKFRS 16, "Leases"**

HKFRS 16 will affect primarily the accounting for Groups' operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized in the consolidated statement of financial position. The Groups are in the process of assessing to what extent the operating lease commitments as disclosed in note 36(b) will result in the recognition of an asset and a liability for future payments and how this will affect the Groups' profit and classification of cash flows.

There are no other amendments and new or amended standards that are not yet effective that would be expected to have a significant impact on the Groups' results of operations and financial position.

# FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2016

| Results<br>In HK$ million | 2012 | 2013 | 2014 | 2015 | **2016** |
|---|---|---|---|---|---|
| **Revenue by Principal Activity** | | | | | |
| Telecommunications Services | 17,348 | 18,773 | 19,309 | 20,205 | **20,547** |
| Mobile | 3,049 | 3,371 | 8,950 | 14,317 | **13,063** |
| Other businesses | 684 | 688 | 564 | 207 | **237** |
| | 21,081 | 22,832 | 28,823 | 34,729 | **33,847** |
| Cost of sales | (9,027) | (10,117) | (12,053) | (15,539) | **(14,445)** |
| General and administrative expenses | (9,073) | (9,501) | (12,416) | (13,287) | **(12,523)** |
| Other gains/(losses), net | 18 | 84 | 151 | 18 | **(51)** |
| Finance costs, net | (805) | (833) | (1,124) | (1,310) | **(1,107)** |
| Share of results of equity accounted entities | (79) | 50 | (81) | (25) | **(23)** |
| Profit before income tax | 2,115 | 2,515 | 3,300 | 4,586 | **5,698** |
| Income tax | (455) | (16) | (242) | (600) | **(771)** |
| Profit for the year | 1,660 | 2,499 | 3,058 | 3,986 | **4,927** |
| Attributable to: | | | | | |
| Holders of Share Stapled Units/shares of the Company | 1,610 | 2,460 | 2,991 | 3,949 | **4,889** |
| Non-controlling interests | 50 | 39 | 67 | 37 | **38** |

| Assets and Liabilities<br>As at December 31 in HK$ million | 2012 | 2013 | 2014 | 2015 | **2016** |
|---|---|---|---|---|---|
| Total non-current assets | 56,810 | 56,348 | 77,542 | 77,570 | **80,921** |
| Total current assets | 9,563 | 9,471 | 12,258 | 12,347 | **12,445** |
| Total current liabilities | (16,005) | (7,157) | (14,415) | (14,778) | **(11,302)** |
| Total non-current liabilities | (19,251) | (27,857) | (37,346) | (37,404) | **(42,905)** |
| Net assets | 31,117 | 30,805 | 38,039 | 37,735 | **39,159** |

# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

**TO THE SOLE SHAREHOLDER OF HKT MANAGEMENT LIMITED**
*(Incorporated in Hong Kong with limited liability)*

## Opinion

***What we have audited***

The financial statements of HKT Management Limited (the "Company") set out on pages 178 to 186, which comprise:

- the statement of financial position as at December 31, 2016;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

***Our opinion***

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

***Independence***

We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Other Information

The directors are responsible for the other information. The other information comprises all the information included in the HKT Trust and HKT Limited 2016 annual report other than the financial statements of the Company, the consolidated financial statements of HKT Trust and HKT Limited and our auditor's reports thereon ("Other Information").

Our opinion on the financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

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

## Responsibilities of Directors and the Audit Committee for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, January 13, 2017

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

# INCOME STATEMENT OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2016

| In HK$'000 | Note | 2015 | **2016** |
|---|---|---|---|
| Management fee income | | 89 | **48** |
| General and administrative expenses | | (47) | **(48)** |
| Profit before income tax | 5 | 42 | **–** |
| Income tax | 6 | – | **–** |
| Profit for the year | | 42 | **–** |

The notes on pages 183 to 186 form part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2016

| In HK$'000 | 2015 | **2016** |
| --- | --- | --- |
| Profit for the year | 42 | **–** |
| Other comprehensive income | – | **–** |
| Total comprehensive income for the year | 42 | **–** |

The notes on pages 183 to 186 form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION OF HKT MANAGEMENT LIMITED

As at December 31, 2016

| In HK$'000 | Note | 2015 | **2016** |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Current assets** | | | |
| Amount due from a fellow subsidiary | 4(c) | 174 | **222** |
| | | 174 | **222** |
| **Current liabilities** | | | |
| Accruals and other payables | | 127 | **129** |
| Amount due to a fellow subsidiary | 4(c) | 47 | **93** |
| | | 174 | **222** |
| **Net assets** | | – | **–** |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 7 | – | **–** |
| Reserves | | – | **–** |
| **Total equity** | | – | **–** |

Approved and authorized for issue by the board of directors (the "Board") on January 13, 2017 and signed on behalf of the Board by

**Alexander Anthony Arena**
*Director*

**Hui Hon Hing, Susanna**
*Director*

The notes on pages 183 to 186 form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2016

| 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** | – | – | – |

| In HK$'000 | **2016** | | |
|---|---|---|---|
| | **Share capital** | **Retained Profit** | **Total** |
| **As at January 1, 2016** | **–** | **–** | **–** |
| **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, 2016** | **–** | **–** | **–** |

The notes on pages 183 to 186 form part of these financial statements.

# STATEMENT OF CASH FLOWS OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2016

| In HK$'000 | 2015 | **2016** |
|---|---|---|
| **Operating activities** | | |
| Profit before income tax | 42 | **–** |
| Adjustments for: | | |
| Increase in amount due from a fellow subsidiary | (90) | **(48)** |
| Increase in accruals and other payables | 45 | **2** |
| Increase in amount due to a fellow subsidiary | 3 | **46** |
| Net cash generated from operating activities | – | **–** |
| **Investing activities** | | |
| Net cash generated from investing activities | – | **–** |
| **Financing activities** | | |
| Net cash generated from financing activities | – | **–** |
| Net change in cash and cash equivalents | – | **–** |
| **Cash and cash equivalents** | | |
| Beginning of year | – | **–** |
| End of year | – | **–** |

The notes on pages 183 to 186 form part of these financial statements.

## 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, which is a collective term for all individual Hong Kong Financial Reporting Standards ("HKFRSs"), 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 (Cap. 622). 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 amendments and new or amended standards that are not yet effective for the current accounting period, details of which are set out in note 10.

The measurement basis used in the preparation of the financial statements is historical cost basis.

The preparation of financial statements in conformity with Hong Kong Financial Reporting Standards 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 Hong Kong Financial Reporting Standards 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 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 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;

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; or

vii. the entity provides key management personnel services to 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 | 2015 | **2016** |
|---|---|---|
| Management fee receivable from a fellow subsidiary | 89 | **48** |

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, 2015 and 2016.

c. The amounts due from/to fellow subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

## 5 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

| In HK$'000 | 2015 | **2016** |
|---|---|---|
| Charging: | | |
| Auditor's remuneration | 45 | **48** |

## 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, 2015 and 2016.

No deferred income tax asset and liability was recognized as at December 31, 2015 and 2016.

## 7 SHARE CAPITAL

| | 2015 | | **2016** | |
|---|---|---|---|---|
| | Number of share | Value HK$ | **Number of share** | **Value HK$** |
| Issued and fully paid: | | | | |
| Ordinary share | | | | |
| 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 AND NEW OR AMENDED STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2016

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments and new or amended standards which are not yet effective for the accounting period ended December 31, 2016 and which have not been early adopted in these financial statements:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| HKAS 7 (Amendment) | Statement of Cash Flows | January 1, 2017 |
| HKAS 12 (Amendment) | Income Taxes | January 1, 2017 |
| HKFRS 2 (Amendment) | Share-based Payment | January 1, 2018 |
| HKFRS 15 | Revenue from Contracts with Customers | January 1, 2018 |
| HKFRS 9 (2014) | Financial Instruments | January 1, 2018 |
| HKFRS 16 | Leases | January 1, 2019 |

Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2016 and have not been early adopted in these financial statements.

None of the above is expected to have a significant effect on the financial statements of the Company.

# 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 OF HKT LIMITED AND HKT MANAGEMENT LIMITED

Bernadette M. Lomas

### 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, 2016: | 7,571,742,334 units |

### DISTRIBUTION

Distribution per share stapled unit for the year ended December 31, 2016:

| | |
|---|---|
| Interim | 27.09 HK cents |
| Final | 34.76 HK cents* |

** Subject to the approval of holders of share stapled units at the 2017 Annual General Meeting*

### FINANCIAL CALENDAR

| | |
|---|---|
| Announcement of 2016 Annual Results | January 13, 2017 |
| Closure of books | March 23 – 24, 2017 (both days inclusive) |
| Record date for 2016 final distribution | March 24, 2017 |
| Payment of 2016 final distribution | on or around April 7, 2017 |
| 2017 Annual General Meeting | March 17, 2017 |

## HKT MANAGEMENT LIMITED

*(incorporated in Hong Kong with limited liability)*

**(THE TRUSTEE-MANAGER OF THE HKT TRUST)**

### BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

Professor Chang Hsin Kang, FREng, GBS, JP
Sunil Varma
Aman Mehta
Frances Waikwun Wong

### 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

### INVESTOR RELATIONS

For more information, please contact Investor Relations at:
Telephone: +852 2514 5084
Email: ir@hkt.com

## ANNUAL REPORT 2016

This Annual Report 2016 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 2016 using electronic means through the website of HKT Limited may request a printed copy, or
B) received the Annual Report 2016 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 2016) 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 2016 will promptly, upon request in writing or by email to the Share Stapled Units Registrar, be sent the Annual Report 2016 in printed form, free of charge.

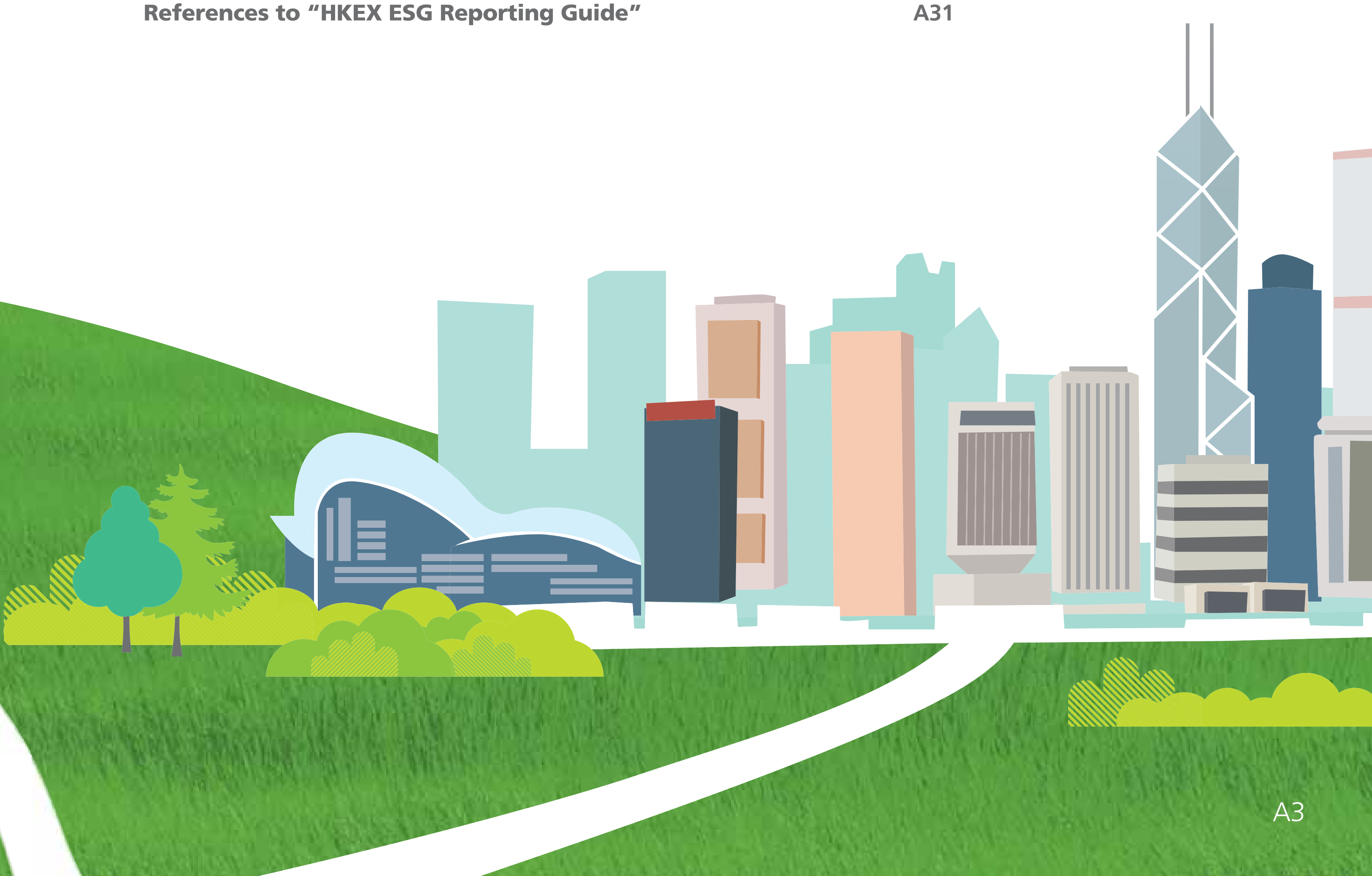
Holders of share stapled units may change their choice of language and/or means of receipt of future corporate communications of the HKT Trust, HKT Limited and HKT Management Limited at any time, free of charge, by reasonable prior notice in writing or by email to the Share Stapled Units Registrar.

## Appendix

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

# CONTENTS





# ABOUT THIS REPORT

This is HKT Trust and HKT Limited's (referred to in this report as "HKT Group" or "the Group" or "the Company" or "HKT") (Stock code: 6823) first annual Environmental, Social and Governance (ESG) report. The report covers the financial year ended December 31, 2016 and discloses information on HKT's ESG management approach, strategy, priorities and objectives.

The report explains how HKT complies with the "comply or explain" provisions of the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (HKEX ESG Reporting Guide).

This report has been reviewed and approved by HKT's Board of Directors.

## REPORT SCOPE

This report covers HKT's core businesses in Hong Kong. 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 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.

References to HKT's subsidiaries and outsourced operations activities are made, where relevant.

The report highlights HKT's sustainability efforts in:

- Environmental Aspects (emissions, use of resources, the environment and natural resources)
- Social Aspects (employment, health and safety, development and training, labor standards, supply chain management, product responsibility, anti-corruption and community investment)

For details of our corporate governance, please refer to the Combined Corporate Governance Report included in HKT Annual Report 2016.

**The content of the report focuses on material sustainability areas – based on HKT's most significant economic, environmental and social impacts, as well as the areas that are of the greatest interest or concern to stakeholders – identified through a comprehensive materiality assessment, which included stakeholder engagement. Details of the process are set out in the "Corporate Social Responsibility at HKT" section of this report.**

## EMISSIONS

20,000+ handsets sent to NGOs and Government-endorsed contractors for distribution to the underprivileged or for responsible disposal as e-waste.

Company e-procurement, e-payment and e-leave systems reduce paper usage.

Around 90% of broadband and mobile customers receive e-bills. E-billing extended to residential fixed-line customers in November.

## USE OF RESOURCES

Voluntary disclosure of carbon emission data on the Carbon Footprint Repository of Environmental Protection Department.

Continually modernizes telecom exchanges and equipment; mobile network integration achieves energy efficiency and savings.

Smart Charge electric vehicle charging solutions promotes electric mobility and a cleaner environment.

## DEVELOPMENT AND TRAINING

1,400 learning and development programs and seminars held for staff.

## SUPPLY CHAIN AND PROCUREMENT

Compliance with ISO 9001 (2008 version).

## RESPONSIBLE NETWORK MANAGEMENT

Fibre-To-The-Building coverage reaches 87.6%, with 83.5% Fibre-To-The-Home coverage.

## DATA PRIVACY AND SECURITY

ISO 27001 certified IT Security Management Systems.

## COMMUNITY INVESTMENT

26 ongoing and 15 special programs in partnership with NGOs, charitable organizations and social services groups.

Over 20,000 volunteer service hours in 2016.

# CORPORATE SOCIAL RESPONSIBILITY AT HKT

As Hong Kong's leading telecommunications service provider, corporate social responsibility (CSR) is an integral part of our business strategy. We are committed to operating in a manner that is economically, socially and environmentally sustainable while balancing the interests of our various stakeholders and providing a valuable service to society. Meeting this commitment is an important management objective and the individual and collective responsibility of all HKT employees.

## CSR GOVERNANCE STRUCTURE

HKT's Board of Directors supports our CSR commitment. The development of our CSR policies is the responsibility of the CSR Committee, which is chaired by the Head of Group Communications and comprised of representatives of the Group Functional Unit Heads. The CSR Committee meets regularly and reports directly to the Finance and Management Committee.

| Parties | CSR Responsibilities |
|---|---|
| **Board of Directors** | • Monitors corporate governance practices and procedures; and maintains appropriate and effective risk management and internal control systems of the Group to ensure compliance with applicable rules and regulations<br>• Approves CSR Policy and Corporate Responsibility Policy |
| **Executive Committee** | • Operates as a general management committee with overall delegated authority from the Board |
| **Finance and Management Committee** | • Reviews management and strategic matters across the Group and sets overall financial objectives and policies |
| **Audit Committee** | • Assists the Board with ensuring the objectivity and credibility of financial reporting, and that the directors have exercised care, diligence and skills prescribed by law when presenting results to unit holders<br>• Assists the Board with ensuring that risk management and effective internal control systems are in place and good corporate governance standards and practices are maintained |
| **Risk Management, Controls and Compliance Committee** | • Reviews procedures for preparation of HKT's annual and interim reports and, from time to time, corporate policies of the Group to ensure compliance with the various rules and obligations of a Hong Kong-listed company, and assists directors in the review of the effectiveness of the risk management and internal control systems of the Group on an ongoing basis |
| **CSR Committee** | • Ensures that the Company operates in a manner that enhances its positive contribution to society and the environment<br>• Reviews the Company's CSR strategy, principles and policies<br>• Sets guidance and direction of and oversees CSR practices and procedures<br>• Monitors progress on CSR and related activities |
| **CSR Team** | • Promotes CSR internally and externally<br>• Organizes and implements CSR initiatives |
| **Departments and Business Units** | • Implement CSR practices and ensure CSR compliance in daily operations |

## OUR POLICIES

### Corporate Social Responsibility Policy

HKT's Corporate Social Responsibility Policy (CSR Policy) consists of a set of rules approved by the HKT's Board of Directors, which applies throughout the HKT Group. This CSR Policy is a clear and simple statement of how the Group interacts with its stakeholders, society at large and the environment to meet and exceed minimum legal standards.

The CSR Policy applies to all directors, officers and employees of the Group. All contractors, subcontractors and individuals acting for or on behalf of the Group are informed of the CSR Policy. All companies in the Group's supply chain are encouraged to adopt the CSR Policy as best practice guidance for their own businesses with the aim of ensuring consistent operational practices that contribute to a more sustainable world.

### HKT's CSR Policy covers five key areas of responsibility:


### Corporate Responsibility Policy

HKT's Corporate Responsibility Policy (CR Policy) offers guidelines for stakeholder engagement. The Group's main stakeholders are customers, employees, local communities, suppliers and business partners, investors and regulators.

The requirements of the CR Policy are complementary to those of the CSR Policy, which enable the Company to achieve a high standard of business ethics, governance and integrity.

All employees have a duty to uphold the standards established in the CR Policy, which go beyond minimum legal standards. The CR Policy is a clear and simple guide for employee conduct in areas such as:

- compliance with laws, regulations and HKT Group policies
- civic behavior and responsibility, including fair competition
- maintaining a safe and respectful workplace, including equal opportunities as well as health and safety
- fair business dealings and avoidance of conflicts of interest
- do not misuse inside information
- communications safeguards, including the quality of public disclosures
- property and records management
- privacy and information protection
- avoidance of bribery
- avoidance of gifts and entertainment
- whistle-blowing

The CR Policy also serves to meet legal and auditing requirements for corporate governance purposes, and all employees of HKT and its subsidiary companies must agree to comply with the CR Policy by signing a compliance declaration upon their recruitment and during their annual performance reviews.

The CR Policy has been approved by the Board, which has delegated responsibility to its committees with clear terms of reference for approving company strategies, setting management targets and supervising management performance. HKT remains alert to shifts in the external environment and regularly reviews its CSR and CR practices and policies to ensure they remain relevant to the Group's business and in compliance with current laws and regulations.

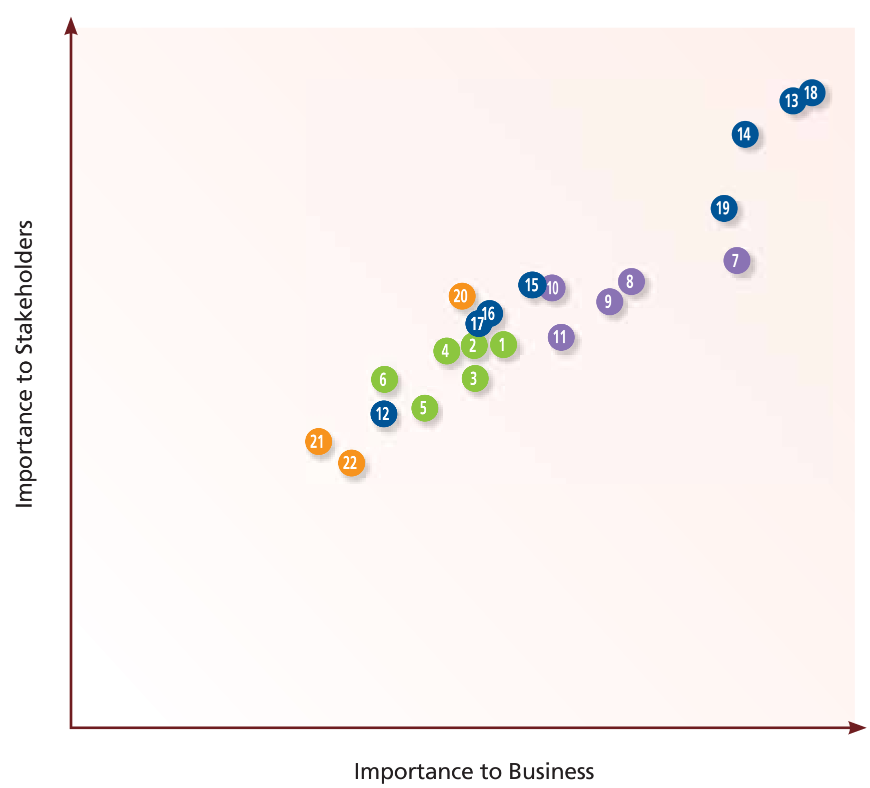
The Group has also adopted policies and procedures to assess and improve the effectiveness of its risk management and internal control functions. The Risk Management, Controls and Compliance Committee reviews the design, implementation and monitoring of the risk management and internal control systems for the Group regularly. For more details, please refer to HKT's Annual Report 2016.

## STAKEHOLDER ENGAGEMENT and MATERIALITY

We understand that stakeholder engagement is one of the key drivers in the continuous improvement of our ESG performance. We endeavor to supply our unit holders, customers, employees, suppliers, other stakeholders and all interested parties with clear information about our approach to ESG issues.

We conducted a comprehensive materiality assessment that included focus groups, interviews and a survey of internal and external stakeholders to identify issues that reflect significant economic, environmental and social impacts of our business, and the issues that matter most to our stakeholders. Based on the results of this assessment, we have identified the following 22 material areas for inclusion in this report:

**HKT ESG Materiality Matrix**



## A. Environmental

| HKEX ESG Guide Aspects | Material Areas |
|---|---|
| A1 Emissions<br>A2 Use of Resources<br>A3 The Environment and Natural Resources | 1. Carbon emissions<br>2. Waste management<br>3. Computers and commodities (e-waste)<br>4. Energy<br>5. Green ICT solutions<br>6. Employee environmental awareness |

## B. Social

### Employment and Labor Practices

| HKEX ESG Guide Aspects | Material Areas |
|---|---|
| B1 Employment | 7. Talent attraction and retention<br>8. Employee welfare and working conditions |
| B2 Health and Safety | 9. Occupational health and safety |
| B3 Development and Training | 10. Learning and development |
| B4 Labor Standards | 11. Human rights |

### Operating Practices

| HKEX ESG Guide Aspects | Material Areas |
|---|---|
| B5 Supply Chain Management | 12. Supply chain and procurement |
| B6 Product Responsibility | 13. Customer data privacy and security<br>14. Responsible advertising<br>15. Reliable services and products<br>16. Responsible network management<br>17. Customer service and satisfaction |
| B7 Anti-corruption | 18. Corporate governance<br>19. Anti-corruption |

### Community

| HKEX ESG Guide Aspects | Material Areas |
|---|---|
| B8 Community Investment | 20. Community investment<br>21. Technology and education initiatives<br>22. Employee engagement in community |

# REPORTING ON ENVIRONMENTAL ASPECTS
## (ASPECTS A1-A3)

HKT recognizes the importance of good environmental stewardship and is committed to protecting the environment. We integrate environmental considerations into our business processes and strive to continually improve our environmental performance in line with local regulations and industry-specific guidelines.

Reducing the energy consumption of our exchanges and equipment is a priority as they account for a significant proportion of our total carbon emissions. Our priority objectives include:

### OBJECTIVES

- Reducing $CO_2$ emissions
- Achieving energy savings
- Reducing waste production

### Measures

- Modernizing and optimizing network infrastructure, equipment and buildings
- Optimizing exchanges
- Reducing fuel consumption by optimizing our fleet

We have developed the following policies and procedures to help us meet our environmental objectives:

### ENVIRONMENT-RELATED POLICIES and GUIDELINES

- Energy and Water Management Policy
- Energy and Water Management Guidelines
- Gas Emissions Reduction Policy
- Waste paper recycling procedures – recycling programs

Our CSR Committee oversees sustainability and environmental initiatives for employees. The Facilities Management Team and business units maintain environmental best practices across the Group. Our Group Strategic Purchasing Team promotes similar practices throughout the supply chain through our Supplier Code of Conduct.

We also have an indirect impact on the environment through the services we provide to customers. We continuously explore opportunities to integrate environmental considerations into the development of our products and encourage our customers to save resources through initiatives such as e-bills and other digital services.

## ASPECT A1: EMISSIONS

HKT's approach to managing carbon emissions and other air emissions[1] mainly focuses on the efficient operation of exchanges. Other sources of emissions include our vehicle fleet and standby emergency generators. We are also working to reduce our emissions by improving energy efficiency and decreasing waste across our operations.

As stated in our CSR Policy and our Energy and Water Management Policy and Guidelines, we are committed to the following environmental objectives:

### OBJECTIVES

- **Ensure that resources are not wasted and that where practicable, materials and goods are reused and recycled**
- **Encourage suppliers of goods and services to observe HKT's policies and best practices and to operate in an environmentally responsible manner**

### Measures

- **Energy and Water Management Policy and Guidelines**
- **Supplier Code of Conduct**
- **Gas Emissions Reduction Policy**
- **Waste paper recycling procedures**

We regularly measure $CO_2$ concentration levels and conduct air quality tests at our offices and major exchanges. We provide a comfortable working environment by regularly clean air-conditioning systems, carpets and upholstery.

### Carbon Emissions[2] (Material Area 1)

**Fleet**
To reduce emissions from our vehicle fleet, we have replaced our vans with more efficient and environmentally friendly vehicles and have acquired two electric vehicles. We are also reducing overall fleet usage through our vehicle-sharing program.

**Refrigerants**
We comply with the Montreal Protocol, which requires the phasing out of ozone-depleting hydrochlorofluorocarbons (HCFCs) by January 2020. We have been replacing HCFCs-based air conditioning systems with those using water cooling and more environmentally friendly refrigerants (e.g. hydrofluorocarbons), which are also more energy efficient.

**Standby Emergency Generators**
Our generators are environmentally friendly in terms of noise levels, gas emissions, and smoke discharge. In the past years, we have worked to reduce carbon emissions by cutting the monthly generators' testing time.

**Smart Charge**
In partnership with CLP Holdings Limited, HKT formed an equal joint venture, Smart Charge (HK) Limited, in 2016. Smart Charge aims to help improve air quality in Hong Kong by providing charging solutions for electric vehicles.

[1] Other air emissions include emissions of sulphur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO), and emissions of volatile organic compounds (VOC), excluding methane.

[2] For GHG emissions, please refer to the Energy (Material Area 4) section.

## Waste Management (Material Area 2)

Our Waste management strategy reflects the key principles of the "waste hierarchy" – reduce, reuse, recycle and replace. Our CSR Team maintains and reviews our recycling practices and programs, and assists business units to raise staff awareness of best practices for resource conservation.

**Recycling programs**

We have designed several recycling programs to reduce electronic and paper-based waste. We donate surplus resources such as outdated staff uniforms to charitable organizations. We also organize workshops and conservation days to promote greener-living concepts among our staff.


## Computers and Commodities (e-waste) (Material Area 3)

To reduce e-waste, we reuse or recycle phones, set-top boxes and other products.

Our mobile communications business has launched the "Help Yourself • Help the Needy • Help the Earth Handset Recycling Program", which encourages mobile phone customers to donate their old handsets and accessories such as batteries and chargers at our shops. In 2016, more than 20,000 handsets were sent to NGOs and Government-endorsed contractors for distribution to the underprivileged or for responsible disposal as e-waste.

We were granted a "Save Resources Mission" Gold Award under the Green Missions program organized by Friends of the Earth (HK) for reducing our waste paper and printer cartridges waste.

**Reducing Paper Consumption**

Our efforts to reduce paper usage include implementing paperless e-Procurement and e-Payment systems. In 2016, we launched an e-Leave application system for all staff.

We encourage our customers to choose e-billing and make greater use of digital service applications. Around 90% of our NETVIGATOR broadband and mobile customers have opted to receive their bills via e-mail and/or SMS. To support this progress, we extended e-billing to residential fixed-line customers in November 2016. In addition, our paperless initiatives at retail outlets include electronic product catalogs and tablet-based signing for sales and service contracts.

**Hazardous Waste**

Hazardous Waste is not a material area for HKT. Nevertheless, we hired specialist contractors and licensed chemical waste collectors to handle the recycling and management of hazardous waste materials generated from electronic equipment as well as cooling and fire-fighting systems.

## ASPECT A2: USE of RESOURCES

### Energy (Material Area 4)

We have adopted various policies and guidelines to continually improve our energy efficiency and management. We aim to adopt best practices for energy conservation and support our business units with the implementation of effective energy conservation strategies. The Energy Management Manager of our Facilities Management Team is responsible for implementing new technologies and procedures to reduce electricity consumption.

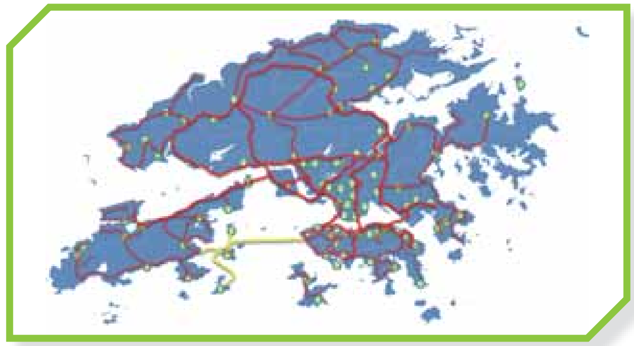
Our exchanges, telecom/IT equipment, infrastructure and offices account for most of our energy consumption. We are committed to finding new ways to reduce energy consumption while improving the capacity and performance of our equipment and infrastructure to offer the best products and solutions to our customers.

Our recent efforts in this regard include:

- modernizing our telecom network facilities and air-conditioning systems
- introducing a next-generation telecom network to improve energy efficiency across our operations
- installing energy-efficient lighting and video-conferencing systems
- controlling optimal temperature settings for exchanges and offices
- providing signs to remind staff to save energy and live a low carbon life

In December, HKT was awarded the CarbonCare® Action Label 2016 for implementing innovative carbon reduction solutions.

Having voluntarily joined the Environmental Protection Department's Carbon Footprint Repository for Listed Companies in Hong Kong in 2014, HKT is one of the first movers to report carbon emissions data online. Since then, we have continued to voluntarily disclose our carbon footprint data.



**Telecommunications Network and Equipment**

We own and operate an extensive network of fixed-line and mobile telecommunications in Hong Kong.

HKT's 90 exchange buildings house the telecom equipment that enables us to exchange telecom and Internet traffic between HKT and other networks in Hong Kong and around the world.

Our ongoing efforts to modernize our voice network equipment can cut energy consumption of digital switches for fixed-lined voice services by 70%.

We are taking measures to enhance server efficiency and use, which will allow us to use fewer physical servers to store more data and reduce the demand for power.

**Building Facilities**

We review energy management issues on a bi-monthly basis and conduct monthly audits on our internal monitoring systems. We are continuing with plans to modernize and replace existing technologies with more energy-efficient, environmentally sensitive alternatives.

We also make use of automated building control systems that continually monitor and adjust climate controls and other facilities management systems to uphold good energy efficiency standards.

Our buildings account for a significant proportion of our energy consumption and $CO_2$ emissions. Steps to save energy, cut carbon emissions and reduce the life-cycle costs of our exchanges include replacing conventional air-conditioning cooling systems with water-cooled chillers.

In 2016, we replaced two of our existing chiller plants with water-cooled systems. It is estimated these efforts will achieve 30% energy saving.

**Mobile Stations and Mobile Network**

At the end of 2015, we completed the consolidation of the HKT and csl mobile radio cell sites. In 2016, we carried out a number of major engineering and IT (information technology) exercises for the full integration of the two core mobile networks. Through this integration project, we have achieved operational efficiency and energy saving by reducing a significant number of duplicated and ineffective sites, and uplifting network performance. Environmental considerations have been taken into account throughout the design, construction, and operation phases. With the new mobile stations, we are also minimizing the use of air-conditioning systems, contributing to lower energy consumption and fewer $CO_2$ emissions to the environment.

**Office Energy-savings Programs**

We participated in the following energy-saving programs and initiatives in 2016:

| Initiatives | Descriptions |
|---|---|
| Green Missions | Received a Save Resources Mission Gold Award and a Save Energy Mission Bronze Award in the Green Missions program organized by Friends of the Earth (HK) |
| Earth Hour | Participated in WWF – Hong Kong's Earth Hour campaign |
| Charter on External Lighting | Became a signatory to the Charter on External Lighting of the Environment Bureau |

**Green Purchasing**

Our Energy and Water Management Guidelines support energy-efficient procurement procedures. Whenever possible, we encourage our employees to:

- take energy efficiency into consideration when purchasing supplies or reviewing suppliers of office equipment
- consider the energy cost of the operation of the product or equipment over the life of the product

## Green ICT Solutions (Material Area 5)

We strive to support our customers in their efforts to adopt more environmentally friendly lifestyles and business practices.

Our business-to-business cloud solutions help our customers reduce their $CO_2$ emissions and resource consumption, which in turn achieve cost savings. Our exchanges are designed and managed to be environmentally responsible. All power supplies, including backup generators, air-conditioning systems and other E&M signaling services for our facilities adopt energy-saving and environmentally friendly technologies. The energy-efficient design of our exchanges also helps keep the power consumption as low as possible.

Our eSmartHealth provides a secure way for healthcare practitioners to efficiently manage patient records on a digital platform.

For our business-to-consumer products, our HKT Smart Living product provides all-in-one automated control of domestic electrical systems and appliances – including lighting, air-conditioning and curtains – via a smartphone or tablet interface. The Smart Living system can help users lower their electricity costs by becoming more efficient energy consumers.

HKT also offers Smart Charge electric vehicle charging solutions to meet the rising consumer demand. HKT strives to promote electric mobility and a cleaner environment for Hong Kong.

### Water management

Water management is not a material area for HKT. Much of our water consumption is for basic cleaning and sanitation, as well as certain catering facilities in our buildings. Other usage includes the operation of cooling equipment and infrastructure across our exchanges. Our commitments, guidelines and principles are set out in our Energy and Water Management Policy.

### Other raw materials

We have suppliers and contractors to manufacture our own products, and we work closely with such suppliers and contractors to ensure that the products and services we provide to our customers meet environmental standards.

Please refer to the Supply Chain and Procurement (Material Area 12) section for more details.

## ASPECT A3: THE ENVIRONMENT and NATURAL RESOURCES

### Employee Environmental Awareness (Material Area 6)

To help promote environmental awareness among our employees, our staff newsletter publishes a regular "Green Matters" column, which provides updates on various environmental issues and the Group's latest environmental initiatives, as well as tips on how to "go green" at home. Employees are encouraged to comment and share their views on the content of the column and other environmental issues via a dedicated e-mail. Our CSR Team distributes "green labels" in our offices, through which colleagues are reminded to "recycle", "save energy", "save water" and "protect our natural environment".

#### Memberships

| Organizations | Memberships |
|---|---|
| Business Environment Council (BEC) | Council member and one of the founding members |
| Friends of the Earth (HK) | Cool Corporate Membership Scheme 2016-2017 |
| The Green Earth | Green Earth Companion, Water Category 2016-2017 |

#### Green Volunteering

Our corporate Volunteer Team participated in environment-related programs in partnership with various charity and social services groups in 2016.

| Organization | Programs |
|---|---|
| Business Environment Council (BEC) | Involved in the BEC Biodiversity Ambassador Training Programme: Marine Biodiversity Conservation. We also supported a series of roving exhibition-cum-sharing sessions in the community to promote marine biodiversity conservation. |
| The Green Earth | Participated in clean-up services and tree planting at Clear Water Bay Country Park. |
| WWF – Hong Kong | Participated in weeding work at Mai Po Nature Reserve. |

# REPORTING ON SOCIAL ASPECTS

## EMPLOYMENT AND LABOR PRACTICES
### (ASPECTS B1-B4)

HKT employs over 18,900 employees, who are all key to maintaining our competitiveness and delivering the best services. We are committed to providing a rewarding work environment that encourages collaborations and offers our employees opportunities to learn, grow and succeed at work and in life. This commitment is incorporated into our Human Resources Policy Manual, CSR Policy and Employee Handbook.

**OBJECTIVES**

- **To attract, develop, motivate and retain suitable talent to provide quality ICT services**

**Actions**

- **Fair compensation and working hours**
- **Career development and promotion opportunities**
- **Well-being initiatives**

## ASPECT B1: EMPLOYMENT

### Talent Attraction and Retention (Material Area 7)

We provide employees with a nurturing environment, high levels of work variety and excellent career development opportunities, including skills development and leadership training, job rotation and secondment programs, and a "promotion from within" policy.

We have established a clear career progression structure under five tiers: 1) Associate and Operational Professional, 2) Managerial, 3) Senior Professional or Managerial, 4) Executive and 5) Senior Executive. Ongoing performance assessments and formal annual reviews ensure managers support employees in setting and achieving their career ambitions and professional goals. Our Performance and Development Review System helps employees grow their capabilities in line with their own career ambitions and the Group's business objectives.

We aim to attract, motivate and retain the best people for our business operations. To achieve this, we provide a market-competitive employment package consisting of monetary and non-monetary rewards for all our employees. Our comprehensive reward system offers discretionary incentive bonus scheme, sales commission, share grants, group medical insurance protection, and retirement protection. We also operate on-site canteens at several locations, which provide staff with reasonably priced meals.

Employees who enjoy a good work-life balance are better equipped to achieve their best performance. We support our people in effectively managing their work and life commitments through initiatives such as marriage, compassionate and volunteer leave.

**Employee Communication**

Promoting a corporate culture of open communication is one of the keys to sustaining our market leadership. We encourage staff at all levels to express their views and make suggestions through a variety of channels, including face-to-face meetings and "town hall" style gatherings with management. Our Joint Staff Council provides staff and management with a platform for discussing important issues such as operational efficiency, career development and training, working conditions, pay and benefits, and the provision of social and recreational facilities. Our intranet and internal newsletters keep employees up to date with business developments across the Group.

We strive to resolve any labor related matters through dialogue and amiable resolutions with the relevant employees.

## Employee Welfare and Working Conditions (Material Area 8)

As part of providing an engaging and supportive working environment, we help our people pursue their personal interests and live a healthy and fulfilling life.

Our Sports and Recreation team organizes different social, sports and recreation activities, and our Sports and Interest Group oversees the running of 17 sports teams and four interest groups. Through strong teamwork and dedicated training, our teams won more than 10 awards at various competitions organized by the Inter-Hong Games Association in 2016.

To build corporate pride and cohesion, we offer our employees special discounts on a wide range of our products and services.

Our Service Excellence Awards and Long Service Awards recognize outstanding employee contribution and the loyalty and commitment of our staff.

### Equal Opportunities, Diversity and Anti-discrimination

We are an equal opportunities employer. Our employment practices do not discriminate on grounds of gender, disability, pregnancy, family status, race, colour, religion, age, sexual orientation, national origin, trade union membership or other conditions recognized in law. Our CR Policy includes provisions that deal with discrimination, harassment and victimization in the workplace.

### Working Hours and Rest Periods

As Hong Kong's leading telecommunications service provider, we work around the clock to offer top services to our customers. Many of our employees are therefore required to work unsociable hours and on public holidays, and be on standby duty for emergency call-outs. We provide overtime pay and additional compensation for any working time accrued outside regular working hours, or as defined in the employee's job description. HKT complies with the Employment Ordinance and all other relevant Hong Kong employment laws and regulations that deal with working hours and rest periods.

### Dismissal

For situations in which an employee has violated Group regulations, or whose performance is consistently below an acceptable level, a range of procedures to terminate their employment contract have been established. Terms and conditions for dismissal are outlined in our Human Resources Policy Manual. In all cases, managers consult the Human Resources Department to ensure that applicable legal requirements are observed.

## ASPECT B2: HEALTH and SAFETY

### Occupational Health and Safety (Material Area 9)

As a signatory of the Occupational Safety Charter of the Hong Kong Occupational Safety & Health Council, we are committed to maintaining a healthy and safe work environment and complying with all relevant laws and regulations.

Our strong health and safety performance is supported by our Safety Management System, which has been regularly audited and certified as Level Three on the Occupational Safety & Health Council's Continual Improvement Safety Program Recognition of System (CISPROS).

Group Safety Management Committee, as well as the Business Units Safety Management Committee and the OSH Unit jointly manage our Safety Management System.

**Group Safety Management Committee**

Group Safety Management Committee oversees our OSH performance and raises awareness of OSH among all employees. The Committee coordinates regular health and safety training programs for staff across the Group. This training covers corporate-level safety planning, business unit safety planning, general and business unit-specific safe working procedures.

**OSH Unit**

The OSH Unit provides advice, information and training on OSH issues. It also conducts OSH inspections and fire drills, and is responsible for reviewing the job risk assessment report submitted by different units.

Line managers and designated staff members take part in a range of external OSH training programs, including:

- OSH ambassador training
- fire safety ambassador training
- first aid certification
- display screen equipment assessor training
- safety supervisor training
- construction green card training
- ladder assessor training
- accident investigation skills
- occupational safety management
- manual handling assessor training
- confined space (competent person) training
- confined space (certified worker) training
- Certificate of Competence in Workplace Noise Assessment
- internal safety auditor training

**Work Injury Care Program**

We have a Work Injury Care Program, supported by a panel of Work Injury Care doctors for the purpose of conducting the initial medical examination, as well as the initial certification of sick leave required for recuperation.

A panel of medical service providers (general practitioners, specialists, physiotherapists, and occupational health therapists) will be appointed to provide ongoing treatment and rehabilitative support for the injured staff.

Incidents of personal injury-related claims during the reporting period were resolved by mutual agreement amongst the relevant parties.

**Employee well-being**

To strengthen employees' health awareness, we arrange monthly personal healthcare workshop for our colleagues and encourage them to engage in sports and recreational activities at our two staff sports centers. In 2016, we organized 25 health talks. To help staff maintain good psychological health, we operate an Employee Assistance Program that gives staff access to professional external counseling services.

We also recognize the importance of maintaining good personal financial health. In 2016, we organized two series of Workplace Financial Wellness workshops and one-on-one consultation sessions for pre-retirees in order to help them prepare for their retirement.

## ASPECT B3: DEVELOPMENT and TRAINING

### Learning and Development (Material Area 10)

We consider growth of our employees as the key to sustainable business growth. We continue to promote a learning culture and offer structured career development and training programs that ensure staff at all levels are well-equipped to excel at work and in life.

In 2016, we organized around 1,400 training programs and seminars covering various job-related hard and soft skills such as leadership, team building, language development and personal effectiveness.

To build talent and our leadership pipeline, we run a robust Graduate Trainee Program and a Future Leaders Development Program.

We also encourage our staff to attend external training programs to support career development where relevant. With prior approval from the Group, course and examination fees may be subsidized or reimbursed upon successful completion of programs leading to an academic qualification. We also provide a Training Record System for staff to track their internal and external training achievements.

## ASPECT B4: LABOR STANDARDS

### Human Rights (Material Area 11)

We are committed to protecting human rights. We comply with all relevant laws and regulations and have a zero-tolerance policy towards the use of forced labor and child labor in our business operations. With regard to third party suppliers, they are required to accept and observe our supplier contract terms and Supplier Code of Conduct, which outlines our zero tolerance stance on child and forced labor. We aim not to be directly or indirectly complicit in human rights abuses and to ensure that all work that is performed on our behalf is in compliance with all relevant labor laws and regulations. These principles are reflected in our CSR Policy.

We strive to create an environment of respect, integrity and fairness for our employees and customers wherever we operate, and we expect our business partners to act in the same way.

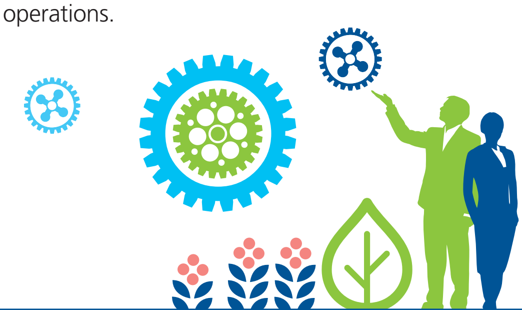
# OPERATING PRACTICES
## (ASPECTS B5-B7)



## ASPECT B5: SUPPLY CHAIN MANAGEMENT

### Supply Chain and Procurement (Material Area 12)

We maintain business relationships with over 2,000 suppliers that provide us with a wide variety of goods, equipment, materials and services. Our suppliers are required to act responsibly and adhere to our ESG standards. We also offer encouragement and support to our suppliers in improving their own sustainability performance. Building trusting relationships with our suppliers helps us manage our potential environmental and social risk while enhancing the efficiency of our operations.



**OBJECTIVES**

- Environmental and social risk management

**Measures**

- Group Purchasing Policy and Principles
- Supplier Code of Conduct
- Procurement contracts

Our Group Purchasing Policy and Principles (GPPP) integrates social responsibility considerations into our purchasing decisions by promoting sound practices in our supply chain. The GPPP enhances communications with our suppliers regarding their compliance with our standards and applicable local regulations governing ethical behavior, employment practices, health and safety, and the environment.

We have a zero tolerance policy towards bribery and corruption. The standard of "no conflict of interest" is set out in our CR Policy and Bribery, Gifts and Entertainment Policy. If members of our staff have any concerns about conflict of interest, they should contact the line manager for clarification. Where a potential conflict of interest arises, they are requested to complete the form "Declaration of Conflict of Interest", which is available on the intranet.

The Company passed annual ISO 9001 (2008 version) audit in 2016, which demonstrates our commitment to high standards of quality in procurement and supply chain management.

**Supplier Assessment and Code of Conduct**
In addition to assessing our suppliers on quality, cost, service and delivery, we also assess whether they display a strong commitment to upholding high standards of socially responsible behavior.

We have in place a Supplier Code of Conduct which outlines our expectations in areas such as:

- legal and regulatory compliance
- human rights of workers
- occupational health and safety
- environmental protection

**Procurement Contracts**
Our procurement contracts consist of provisions on environmental and social aspects, including:

- CSR Policy
  - suppliers are made aware of our commitment to CSR and are encouraged to review our CSR Policy
- Environmental protection
  - suppliers are required to conform in all respects with the provisions of all applicable environmental legislation, regulation or by-law, including obtaining all required environmental permits
  - suppliers are asked to reduce the generation of waste and to dispose of all waste in an environmentally responsible manner
- Occupational safety and health
  - suppliers are required to ensure the safety and health of all their employees and all other people at their workplace. They are asked to adhere to best safety practices and maintain a safe and hygienic working environment
  - major service providers are asked to designate a registered safety officer to monitor safety and report work accidents to HKT
- Conflict of interest
  - suppliers must declare and notify HKT in writing should they become aware that any HKT employee has any financial or other interest in their company, either directly or through a family member
- Prevention of bribery
  - suppliers must not offer or give any gift, payment, loan or other advantage to any member of HKT staff

**Supplier monitoring**
Our Group Purchasing & Supply Team conducts a yearly supplier performance review, targeting our major suppliers and contractors. Any unsatisfactory ratings are communicated to the relevant supplier(s) for rectification or improvement. In 2016, our Supplier Code of Conduct was enhanced to ensure suppliers' commitment to CSR principles and appropriate supplier conduct, stipulating that our Group has the right to audit our suppliers on compliance and performance when appropriate.

## ASPECT B6: PRODUCT RESPONSIBILITY

We are committed to offering an excellent customer experience and ensuring that our products and services are safe, user-friendly and environmentally sound. We adhere to applicable laws regulating health and safety standards (including those that relate to materials used in our products), as well as those governing testing, advertising and labeling. Our aim is for our customers to have confidence in our products and services, and sufficient information to make informed choices.

### Customer Data Privacy and Security, Responsible Advertising (Material Areas 13 & 14)

We view data privacy and security as a key operating principle. We aim to comply with all relevant laws and regulations and have implemented a comprehensive range of information-privacy and data-security procedures to protect individual privacy. There was no known issue regarding material non-compliance with the relevant laws and regulations that would have any significant impact on the Group during the reporting period.

### OBJECTIVES

- **Protecting customer and employee data**
- **Ensuring and supporting the online safety of our customers**

### Measures

- **Group Privacy Policy**
- **Privacy Policy Statement**
- **Personal Data (Privacy) Ordinance Compliance Guidelines**
- **Employee training**
- **Customer online safety guidelines and support**
- **Content Security Guidelines**

We have established a robust governance structure that sits under the Group Legal Office and is led by the Privacy Compliance Officer. In addition, Data Protection Officers are appointed to ensure the Group's compliance with the Group Privacy Policy and Privacy Policy Statement as well as the Personal Data Privacy Ordinance (PDPO). Our employees receive regular training on data privacy-related issues.

Customer's consent must be obtained before we can use their personal data to deliver subscriber-related information, and customers can change their subscription and personal data use preferences at any time by sending a request to our Privacy Compliance Officer.

Apart from the minor incidents resulting from improper display of advertisements showing easy mount frame without permission, for which we promptly settled with relevant fine payments, there were no further concluded cases of non-compliance issues related to advertising.

Our data security management system helps us assess risk and implement any necessary security measures. Our IT Security Management Systems are ISO 27001 certified.

Our storage of physical records containing personal data strictly follows the guidelines set out in the Document Retention Policy, Corporate Security Policy and Corporate Security Principles. Access to records and data without authorization is strictly prohibited. Staff access to personal customer data is granted strictly on a "need-to-know" basis. Any customer complaints received will be put on record by a responsible unit, and will be investigated following internal complaint management procedures. The Group will then respond to the complaining customer regarding our investigation findings.

Our NETVIGATOR broadband internet service provides customers with information and advice on identifying suspicious online content and activities through its "Safe Internet Tips" and "Customer News" channels.

## Reliable Services and Products, Responsible Network Management (Material Areas 15 & 16)

Providing reliable services and products, and responsible network management are our priority. As a leading telecommunications service provider in Hong Kong, we aim to provide telecom networks that meet the current and future needs of our customers. We achieve this by continuously improving the customer experience, relying in part on our well-developed customer relationship management system.

We have established a number of measures to help us deliver on our customer service objectives:

### OBJECTIVES

- Reliable, quality services and products
- Continue increasing Fiber-To-The-Building coverage
- Continue increasing Fiber-To-The-Home coverage
- Extending fiber connectivity to schools
- Extending mobile coverage
- Target to attain highest speed in fixed broadband market

### Measures

- Gigabit Passive Optical Network (GPON) standard
- Long-term Evolution (LTE) standard
- Migration from IPv4 to IPv6

We have designated teams looking after the development and management of various consumer products and services in the Group. To ensure product and service safety and reliability, and those of third party suppliers and manufacturers, our teams are involved in product reliability processes including meeting relevant ISO standards, obtaining corresponding certification, and meeting prescribed government/statutory body requirements.

**Reliable Network**

As part of our business continuity strategy, we review and test our IT systems and business processes at least once a year to ensure they can withstand severe interruptions and that we have adequate back-up procedures and recovery strategies in place.

**Network Access and Responsible Expansion**

In 2016, HKT extended its Fiber-To-The-Building coverage to 87.6% and Fiber-To-The-Home coverage to 83.5%. We also seek to continuously extend coverage in rural areas and outlying islands of Hong Kong. In 2016, HKT completed the integration of mobile networks into one new core network that offers customers a faster and more stable service and more extensive roaming coverage.

Through a network of more than 3,000 sites, we provide comprehensive mobile coverage in Hong Kong, including in all tunnels and railways, and have dedicated indoor and outdoor sites at major university campuses. In addition, HKT has provided fiber connectivity to over 400 schools in Hong Kong to support the deployment of high speed broadband and Wi-Fi in education.

## Customer Service and Satisfaction (Material Area 17)

We value feedback from our customers and consider it an important learning opportunity for improving our services.

We have established a variety of channels to keep us in close contact with our retail customers and encourage them to share their views, including our Customer Service Centers and Integrated Customer Service Hotline, as well as customer satisfaction surveys. Senior management regularly review reports on customer suggestions, compliments and complaints.

### Service Excellence Awards

To help drive our efforts to continuously upgrade our service, we have in place Service Excellence Awards (SEA). Launched in 2008, SEA is open to all staff, who may submit their own entries or be nominated by colleagues or supervisors on an individual or team basis.

Every quarter, up to 45 individuals and eight teams will be named as SEA winners and receive a cash prize. The 30 most meritorious individual awardees during the year will be further honored as annual winners at the end of the year.

### Customer Experience Initiatives

We have launched various initiatives to help ensure customer satisfaction:

- An Integrated Customer Service Hotline is available for telecom service support
- The Mystery Shopper Program is an ongoing service performance benchmarking tool conducted in our retail shops. In an effort to constantly uplift our retail service standards, each retail location is audited at least twice a month. Over 500 Mystery Shopper visits take place annually across all our retail locations
- Customer service specialists at our customer service call centers invite customers to participate in a Customer Transaction Survey at the end of each call to help us evaluate our service quality and gain valuable customer feedback
- We have in place a Call Monitoring Program to assess the performance of our call center customer service specialists, who are also required to receive five to ten hours of call service training per month

In addition, we participate in the Customer Complaint Settlement Scheme (CCSS). Organized by the Communications Association of Hong Kong, the CCSS offers a non-judicial forum for resolving deadlocked disputes between customers and their telecommunications service providers.

## ASPECT B7: ANTI-CORRUPTION

### Corporate Governance and Anti-Corruption (Material Areas 18 & 19)

HKT is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of our business.

**OBJECTIVES**

- **Zero bribery**
- **Anti-corruption**
- **Anti-money laundering**

**Measures**

- **Compliance Manual**
- **Corporate Responsibility Policy**
- **Bribery, Gifts and Entertainment Policy**
- **Employee training**

Our Compliance Manual and CR Policy require all directors, officers and employees of HKT and its subsidiaries, affiliates and associated companies to observe high standards of ethical behavior.

We have a zero-tolerance policy regarding bribery and corruption in any form or at any level in association with any aspect of the Group's activities. Our Bribery, Gifts and Entertainment Policy prescribes the minimum set of rules to be adopted throughout our Company to prevent, identify and address any instances of alleged or actual bribery or corruption involving HKT.

Our employees are regularly advised of relevant policies and guidelines, including any updates or revisions. The employee induction process for new hires includes extensive guidance on anti-corruption measures. In addition, all employees are required to annually confirm that they have read and understand our anti-corruption and bribery policies. When new laws and regulations that may impact the business are introduced, we provide training to relevant staff to ensure compliance.

In 2016, a subsidiary of HKT was granted a Stored Value Facilities license. The Company has committed significant resources towards complying with all relevant anti-money laundering rules and regulations which apply to such licensees.

Persons in violation of our company policies and/or applicable laws and regulations may be subject to disciplinary or administrative action as well as civil or criminal liability. Where instances of non-compliance are confirmed, staff may be terminated or further actions may be taken. In 2016, no legal cases concerned with corrupt practices were brought against HKT or any of our subsidiaries or employees.

We have established effective procedures to ensure thorough investigation of all allegations of corruption – whether internal or involving third-party business partners. Instances of improper action are addressed internally unless such matters indicate criminal activity, in which case we will immediately notify appropriate law enforcement agencies.

We have established complaint channels through which employees and other parties can confidentially and/or anonymously report unethical and illegal behavior. We have adopted best practices with respect to whistle-blowing. Details of our whistle-blowing policy and procedures are published on our intranet and public website. All whistle-blowing reports are investigated to the fullest extent possible and reported to the Audit Committee.

# COMMUNITY
## (ASPECT B8)

## ASPECT B8: COMMUNITY INVESTMENT

### Community Investment (Material Area 20)

We are committed to fostering positive relationships with the communities in which we operate, including by engaging in philanthropic and volunteer work to support their long-term development. By combining our resources and the passion of our Volunteer Team, we aim to address community concerns in collaboration with non-profit organizations, the government, private sector partners and academic institutions.

Our CSR Policy provides guidance to ensure that our colleagues make responsible decisions in relation to our community investment activities. Our key principles for community investment include:

- invest in community affairs and functions
- respect cultural and social differences
- ensure activities respect, promote and advance internationally recognized principles for community involvement
- have a positive impact on people, cultures and communities in which we operate
- be respectful of local and indigenous people, their values, traditions and culture
- ensure communities in which we operate are informed of and involved in organizational developments that affect them in a timely manner

**Awards and Recognition**

| Organizations | Awards |
|---|---|
| Steering Committee on Promotion of Volunteer Service, Social Welfare Department | Award of 10,000 Hours for Volunteer Service, 2015 Gold Award for Volunteer Service (Organization), and Merit of Highest Service Hour Award 2015 (Private Organisations – Category 1) |
| Hong Kong Productivity Council | The 7th Hong Kong Outstanding Corporate Citizenship Bronze Award – Volunteer Team |
| The Hong Kong Council of Social Service | Caring Company Logo |
| Community Investment and Inclusion Fund (CIIF) of Labour and Welfare Bureau | Social Capital Builder Logo Awards |

## Technology and Education Initiatives (Material Area 21)

As a leading telecommunications service provider in Hong Kong, we are committed to bridging the digital divide. Alongside continuing to invest in expanding our network expansion, we are supporting technology literacy initiatives and campaigns, and helping local communities enjoy easier access to ICT.

### Enhancing ICT and digital literacy

We contribute our core expertise and knowledge of our employees to projects and programs aiming at enhancing ICT and digital literacy skills in the community. Our initiatives provide practical knowledge about how to use various technologies for children and young people, the elderly and individuals with disabilities.

| Initiatives | Descriptions |
|---|---|
| **IT Summer Camp 2016** | We have been supporting the Shanghai-Hong Kong-Taiwan Youth IT Summer Camp for over 15 years for students from the three places. The camp is co-organized by the Hong Kong Computer Society, the Shanghai Computer Society and the Information Management Association in Taiwan. |
| **Google's Empowering Young Entrepreneurs Program 2016** | HKT is a corporate partner of Google's Empowering Young Entrepreneurs Program (EYE Program). The Program serves as a platform for entrepreneurs, corporations, business executives, governments and investors to work collaboratively to generate and implement innovative ideas that solve potential business challenges. |
| **Girls Go Tech Program** | We partnered with The Women's Foundation in Hong Kong to offer free workshops on computer coding and digital skills to girls from underprivileged families. The program aims to empower girls to pursue studies in the areas of science, technology, engineering and mathematics (STEM) to open up their career horizons and fulfil their academic and personal potential in an increasingly technology-driven world. |
| **HKT Education** | HKT Education helps overcome challenges in the learning and teaching process so that students, teachers, parents and society can fully benefit from the potential offered by eLearning. Through its STEM education scheme, HKT Education offers stable and advanced one-stop eLearning solutions that are supported by the reliable provision of high-speed broadband to schools, as well as cloud storage and Wi-Fi technologies. In partnership with Google and Apple, the HKT Education Professional Development Academy organizes different seminars and courses to train teachers on how to integrate technology into their teaching and optimize the efficiency of e-classrooms. To date, teachers from more than 150 primary and secondary schools have benefited from various Academy training courses and professional development events.  |

## Employee Engagement in Community (Material Area 22)

We encourage employees to pursue their personal passions and dedicate their time and skills to supporting local communities. Our corporate Volunteer Team, which includes staff volunteers and members of their families, gives back to the community through a diverse range of social initiatives. Focusing particularly on the elderly, children and young people, individuals with disabilities and underprivileged families, the Volunteer Team ran 26 ongoing programs and 15 special programs in partnership with various NGOs, charitable organizations and social services groups in 2016. The Team also supported the "Share-to-Care" Volunteer Campaign, organized by the Agency for Volunteer Service, on International Volunteer Day.

Our Volunteer Appreciation Scheme grants up to two days of volunteer leave every year to eligible employees participating in community service initiatives.

### 2016 Community Service Highlights

| Beneficiaries | Main Activities |
|---|---|
| The elderly | • **Elderly Smartphone Workshops:** Teaching elderly people how to use smartphones and common mobile applications.<br>• **Elderly Visits:** Celebrating Chinese New Year, Dragon Boat Festival and Mid-Autumn Festival by distributing caring packs to the elderly.<br> |
| Children | • **Financial Education Activity:** Promoting good financial management concepts to kindergarten children via drama and role play in cooperation with the Mandatory Provident Fund Schemes Authority and Po Leung Kuk.<br>• **Kwong Wah Hospital's Play Activity Program:** Organizing hospital visits for young patients.<br>• **Benji's Centre Walkathon:** Assisting with the annual fundraising walkathon to help children with speech difficulties.<br>• **Junior Gateway Club:** Providing ongoing services for children with autism in partnership with the Heep Hong Society.<br> |

| Beneficiaries | Main Activities |
|---|---|
| Students | • **Life Buddies Mentoring Scheme:** Promoting the development of good life skills among young people and helping them develop a positive vision for their future. Organized in collaboration with the Commission on Poverty.<br> <br>• **Principal Chan Free Tutorial World:** Providing free learning support and recording online teaching videos for students from underprivileged backgrounds.<br>• **Scholarships and Bursaries:** Provided to undergraduates and postgraduates at several universities in Hong Kong. |
| The youth | <br>• **Better SHA Teen Mentorship Program:** Volunteering as youth mentors in collaboration with Tung Wah Group of Hospitals Jockey Club Shatin Integrated Services Centre.<br>• **Love. Dream:** Helping the youth set personal development goals as part of a three-year mentorship program organized by Tung Wah Group of Hospitals' Tuen Mun Integrated Services Centre. |
| People with disabilities | • **Shared-Care Project:** Providing activities to mentally-disabled youth people under a project organized by The Salvation Army Hong Kong.<br>• **IT Educational Programs:** Providing IT support for long-term disabled patients at Cheshire Home (Shatin).<br> |

| Beneficiaries | Main Activities |
|---|---|
| Other groups | • **Hope Development Accounts Program:** Supporting Tung Wah Group of Hospitals' mentorship program for single mothers and underprivileged families in Yuen Long and Tin Shui Wai.<br>• **"Hong Kong Citizen, Hong Kong Heart" Volunteer Ambassador Program:** Making do-it-yourself gifts to the community under a project organized by the Social Welfare Department.<br>• **Mobile Library Services Program:** Providing mobile library services for cancer patients at Queen Elizabeth Hospital.  |

**Philanthropic Sponsorship**

We provided funding and sponsorship for the following events and initiatives:

- HKT supported the annual Free Ride Day organized by the Hong Kong General Chamber of Commerce. About 300,000 citizens benefited from the free rides on trams and Star Ferry
- The 1O1O sponsored the event, "Concert in the Dark", organized by Dialogue Experience, which helped raise public awareness of the challenges of being visually impaired
- Supported Oxfam Trailwalker by providing communication systems support
- Sponsored the call-in hotlines for fundraising shows for Tung Wah Group of Hospitals, Po Leung Kuk, Pok Oi Hospital, Yan Oi Tong and Yan Chai Hospital
- Supported consultation services hotlines for The Samaritans and Hok Yau Club
- Provided telecommunications support for Cheshire Home (Shatin) and a paediatric ward at Princess Margaret Hospital

# REFERENCES TO "HKEX ESG REPORTING GUIDE"

| A. Environmental | | HKT's Comments |
|---|---|---|
| Aspect A1: Emissions | General Disclosure<br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | For more details, please refer to section:<br>Reporting on Environmental Aspects> – Emissions |
| Aspect A2: Use of Resources | General Disclosure<br>Policies on the efficient use of resources, including energy, water and other raw materials. | For more details, please refer to our CSR Policy and section:<br>Reporting on Environmental Aspects> – Use of Resources |
| Aspect A3: The Environment and Natural Resources | General Disclosure<br>Policies on minimizing the issuer's significant impact on the environment and natural resources. | For more details, please refer to section:<br>Reporting on Environmental Aspects> – The Environment and Natural Resources |

| B. Social | | |
|---|---|---|
| **Employment and Labor Practices** | | |
| Aspect B1: Employment | General Disclosure<br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | For more details, please refer to section:<br>Reporting on Social Aspects> Employment and Labor Practices – Employment |
| Aspect B2: Health and Safety | General Disclosure<br>Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to providing a safe working environment and protecting employees from occupational hazards. | For more details, please refer to section:<br>Reporting on Social Aspects> Employment and Labour Practices – Health and Safety |

| B. Social | | |
|---|---|---|
| **Employment and Labor Practices** | | |
| Aspect B3: Development and Training | General Disclosure<br>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | For more details, please refer to section:<br><br>Reporting on Social Aspects><br>Employment and Labor Practices<br>– Development and Training |
| Aspect B4: Labor Standards | General Disclosure<br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to preventing child and forced labor. | For more details, please refer to section:<br><br>Reporting on Social Aspects><br>Employment and Labor Practices<br>– Labor Standards |
| **Operating Practices** | | |
| Aspect B5: Supply Chain Management | General Disclosure<br>Policies on managing environmental and social risks of the supply chain. | For more details, please refer to our Supplier Code of Conduct and section:<br><br>Reporting on Social Aspects><br>Operating Practices<br>– Supply Chain Management |
| Aspect B6: Product Responsibility | General Disclosure<br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | For more details, please refer to section:<br><br>Reporting on Social Aspects><br>Operating Practices<br>– Product Responsibility |
| Aspect B7: Anti-corruption | General Disclosure<br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to bribery, extortion, fraud and money laundering. | For more details, please refer to section:<br><br>Reporting on Social Aspects><br>Operating Practices<br>– Anti-corruption |
| **Community** | | |
| Aspect B8: Community Investment | General Disclosure<br>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | For more details, please refer to section:<br><br>Reporting on Social Aspects><br>Community<br>– Community Investment |

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)

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The Share Stapled Units are listed on The Stock Exchange of Hong Kong Limited (SEHK: 6823).