PCCW®

ANNUAL REPORT 2017

WE MAKE YOUR DIGITAL WORLD COME ALIVE

Stock Code: 0008

CONTENTS

CORPORATE PROFILE

PCCW Limited is a global company headquartered in Hong Kong which holds interests in telecommunications, media, IT solutions, property development and investment, and other businesses.

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

PCCW also owns a fully integrated multimedia and entertainment group in Hong Kong, PCCW Media. PCCW Media operates the largest local pay-TV operation, Now TV, and is engaged in the provision of OTT (over-the-top) video service under the Viu brand in Hong Kong and other places in the region.

Through HK Television Entertainment Company Limited, PCCW also operates a domestic free television service in Hong Kong.

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

In addition, PCCW holds a majority interest in Pacific Century Premium Developments Limited, and other overseas investments.

Employing over 24,000 staff, PCCW maintains a presence in Hong Kong, mainland China as well as other parts of the world.

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

To learn more about our core businesses, please turn over the page.

HKT®

HKT is Hong Kong's leading operator in fixed-line, broadband and mobile communication services.

NETVIGATOR is Hong Kong's largest broadband service provider with its fiber network covering 88.3% of buildings and 85.6% of homes in Hong Kong. CSL Mobile operates the csl and 1O1O mobile service brands.

The share stapled units of the HKT Trust and HKT Limited are listed on The Stock Exchange of Hong Kong Limited.

PCCW Media™

Now TV is Hong Kong's largest pay-TV provider, offering a wide range of local and international content through linear TV channels, on-demand and via OTT (over-the-top) apps.

The media group also operates an international OTT media entertainment business in 27 markets globally, which includes the Viu and Vuclip video streaming services and the MOOV music streaming service. Viu is a leading video service in the region offering premium content for viewers. Vuclip provides web-based and short-form video content for emerging markets. MOOV is a popular lossless music digital streaming service in Hong Kong.

Domestic free TV service ViuTV offers original format factual entertainment content as well as dramas, news, children and sports programs on its Cantonese channel 99 and English language channel ViuTVsix channel 96.

PCCW Solutions®

PCCW Solutions is a leading IT services provider in Hong Kong and mainland China which helps customers achieve their business goals and transform digitally with a wide range of digital services and solutions, IT and business process outsourcing, cloud computing, system development and solutions integration, data centers, hosting and managed services, e-commerce and IoT (Internet-of-Things) solutions.

PCCW Solutions has been playing a key role in supporting critical IT systems in the public sector of Hong Kong, for example, the Next Generation Smart Identity Card System (SMARTICS-2) and the Next Generation Electronic Passport System (e-Passport 2) for the Immigration Department.

In addition to the Greater China area, PCCW Solutions has offices in Singapore and the Philippines.

STATEMENT FROM THE CHAIRMAN

I am pleased to report that the core businesses of PCCW achieved satisfactory operational results for the year ended December 31, 2017.

The media segment in Hong Kong in the past year was highly dynamic. Our leading digital media services comprising Now TV, Viu OTT (over-the-top), and ViuTV remained focused on strengthening their content propositions, enhancing customer experience, and reaching out to more viewers.

Notably, Now TV and ViuTV announced in November rights to exclusively broadcast in Hong Kong the FIFA World Cup in summer 2018. In addition to world-class sports, Now TV continued to reinforce its pay-TV market leadership during the year with a variety of international and Asian TV series and movies on multiple platforms, and via enriched video-on-demand program offering.

Viu OTT has gained further traction in the Southeast Asian markets having introduced Viu Original productions in Chinese, Indian, and Indonesian languages, as well as expanded offerings of Asian movies, thereby creating momentum for growth in subscription and advertising.

ViuTV launched an English channel during the year. ViuTV is committed to offering viewers more quality free television program choices.

PCCW Solutions continued to benefit from the digital transformation of enterprises and serve the needs of the public sector for critical IT systems, such as a major contract in the second half to supply the Next Generation Electronic Passport System in Hong Kong. After securing ground-breaking deals in several new markets in Southeast Asia, PCCW Solutions opened a new office in Singapore in December.

HKT reported a satisfactory performance and a continued growth in AFF (adjusted funds flow) for the year. The broadband and mobile communications businesses continued to achieve steady results despite intense competition throughout the year.

The overseas property projects of Pacific Century Premium Developments (PCPD) are proceeding as planned. The majority of tenants are expected to move into Pacific Century Place Jakarta, which has leased 69% of its office space, from the beginning of this year. As for the hotel and residences project in Hokkaido, Japan, PCPD plans to launch the units in phases in Asia over the next two years. In Hong Kong, PCPD will redevelop with a joint venture partner a prime site in Central into a high-end property.

Lastly, I would like to pay our most sincere tribute to Sir David Ford, who passed away in the U.K. last September. Sir David joined the Board of PCCW in 2002 and made a significant and lasting contribution with his invaluable advice on the company's operational and development strategies, as well as its corporate governance. Mr. David Lawrence Herzog was appointed as an Independent Non-Executive Director with effect from October 9.

Richard Li
Chairman
February 7, 2018

STATEMENT FROM THE GROUP MANAGING DIRECTOR

In an ever expanding digital world when lives are linked and business transformation is accelerating as never before, PCCW offers the combined capabilities of connectivity, entertainment and information technology. Our telecommunications arm, HKT, has built an extensive fiber network and operates the largest mobile communications service in Hong Kong, while providing superb global connectivity. Our media business offers dynamic viewing experiences at home and on-the-go – Now TV captivates audiences with the latest, exclusive content; and our international Viu OTT service constantly reaches new audiences with content tailored to local interests. As a leading IT business solutions provider in Hong Kong and mainland China, we support businesses across many industries to transform digitally. With 24,000 employees from 50 nationalities working in more than 40 countries, PCCW is at the heart of digitally connected lives.

I am pleased to report that in 2017 we aligned our activities with the above goals. A review of the operations is presented in the following sections.

EXCITING PROGRAM LINEUP ON NOW TV

Now TV has once again demonstrated its commitment to bringing to Hong Kong viewers top-rated international sports events. In November, Now TV and the Group's free television service ViuTV jointly announced the exclusive rights to broadcast the 2018 FIFA World Cup Russia™ in Hong Kong. The World Cup is a welcome addition to Now TV's lineup of large-scale international and local sporting events – Premier League, LaLiga, Rugby Sevens, and FIA Formula E Championship, to name a few examples. Combining Now TV's experience with ViuTV's production strength and creativity, the World Cup broadcast will represent another customer acquisition and retention driver.

In addition to sports, Now TV last year continued to enhance its multi-platform offerings on the most current and comprehensive selection of movies and dramas, and enriched our video-on-demand program offering in view of the continual transformation from linear channel viewing to on-demand usage. We also upgraded the Now Player app, the TV set-top box and its user interface for a better customer experience. Subscription apps such as Now Soccer, HBO Go, and Fox+ were launched to capture more viewership.

VIU STRENGTHENING OTT GLOBAL PENETRATION

As the leading video streaming service in Asia, PCCW's international OTT media entertainment service was present in 27 markets in Asia, the Middle East, India, and Africa as of the end of 2017. The number of monthly active users for Viu OTT jumped several times to 16.3 million at the year end, from 4.8 million a year ago.

To further differentiate itself from other operators, Viu OTT has embarked on content production jointly with award winning directors and artistes in an initiative called Viu Original. We have produced content of diversified genres such as drama, thriller, comedy, love and romance, talk show and variety show. In 2017, a total of 24 titles composed of 293 episode of content in Chinese, Indian and Indonesian languages were released. Viu has also brought in Mainland Chinese dramas and variety shows, and expanded its offerings to include Asian movies.

Having now established a foothold in many of our target markets, we will focus on penetrating further in those markets with higher growth potential by enhancing our core value proposition of relevant and original content, as well as deployment of the latest technologies.

QUALITY FREE TV CHOICE

Free television service ViuTV, renowned for its factual entertainment programming since its launch in 2016, has expanded into more drama production and developed evening talk shows as its flagship genres. They represented some of the most popular programming among local viewers during the year.

ViuTV also succeeded in reaching audiences across multiple platforms and markets. The accumulated number of downloads of the ViuTV app exceeded 2.4 million as of the end of 2017. ViuTV is also engaged in co-productions with partners across the region. It is creating a pipeline of content for distribution internationally via Viu OTT service in Asia and other partners in mainland China and other markets. Last year, more than 2,200 hours of program were distributed in eight countries.

PREFERRED DIGITAL TRANSFORMATION PARTNER

As enterprises and public and government organizations continue their journey of digital transformation, PCCW Solutions is in an eminent position to support them to revolutionize the way they operate and enrich the experiences of their customers.

For many years PCCW Solutions has been playing a key role in supplying and maintaining some of the most critical IT systems in the public sector in Hong Kong. A notable win in the second half of 2017 was the supply of a Next Generation Electronic Passport System (e-Passport 2) for the Hong Kong Immigration Department, following a major contract with the department in the first half for the Next Generation Smart Identity Card System.

A digital transformation project to enhance customer experience at a major car park facility in Hong Kong which deployed the Infinitum Parking and Charging solution, earned PCCW Solutions the Connected Cars – Highly Commended Award at the Global Telecoms Awards in November.

PCCW Solutions has also progressively expanded its footprint in Southeast Asia, winning contracts in a number of new markets in the past year. These included multi-year transport related IT solutions in Singapore and Thailand, and contracts in the banking and insurance sectors in Taiwan and the Philippines. To ensure better service delivery, a new office was opened in Singapore in December – the second overseas office in the region outside of Greater China.

Providing a comprehensive suite of services, our D-Infinitum global data center alliance network was expanded to cover facilities in 134 locations in more than 80 cities, an increase of 10 cities from the end of 2016. In Hong Kong, our data centers recorded high utilization rates with the Powerb@se MCX10 Data Center enjoying full utilization as of the year-end. Among our clientele are two of the world's leading cloud operators.

LEADERSHIP IN TELECOM SERVICES

PCCW's majority-owned telecom subsidiary, HKT, reported satisfactory results for last year despite intense market competition in the broadband and mobile communications segments.

NETVIGATOR continued to innovate and introduced a multi-use ultra high-speed broadband service for Hong Kong homes, complementing that with smart Wi-Fi solutions. In August, CSL rolled out Hong Kong's first 1Gbps mobile network, taking mobile communications to a new level. HKT also opened a concept store promoting Internet of Things (IoT) and showcasing how IoT can benefit communications, entertainment, education, work, etc.

Meanwhile, HKT's mobile payment service Tap & Go launched a number of measures especially in the second half to capture the business opportunities in this growing market.

PROPERTY PROJECTS ON SCHEDULE

Construction of Pacific Century Place Jakarta, a major investment project of Pacific Century Premium Developments (PCPD) in Indonesia, is largely complete. The majority of tenants are expected to commence occupation from January 2018. About 69% of the office space has been leased and discussions are being held with more companies which have expressed interest in moving their regional headquarters or representative offices to this premium office building.

As for the project in Hokkaido, Japan, the Park Hyatt Hotel and Branded Residences are expected to be completed in late 2019. PCPD plans to launch the residence units in several phases in Asia over the next two years. Pre-sale activities were already held in the past months in Hong Kong, Japan and Singapore.

In Hong Kong, PCPD will commence a new project – co-redevelopment with CSI Properties of Nos.3-6 Glenealy, Central, into a high-end, predominantly residential building.

In the coming year, PCPD will continue to explore investment opportunities around the world to maximize shareholders' return.

LOOKING AHEAD

PCCW has been able to progress its businesses in accordance with our plans in the past year. The Group successfully completed a number of strategic activities, including PCCW's partial sell-down of its stake in HKT, the introduction of strategic and financial investors to the OTT media business and the divestment of the wireless broadband business in the United Kingdom which contributed to strengthening of the Group's overall capital structure and unlocking value within the Group.

This year, Now TV will seek to further enhance viewing experience with richer content and more on-demand programming to capture the online and on-the-go viewing segments. Our exclusivity in broadcasting the 2018 FIFA World Cup Russia™ on both pay-TV and free TV is a testimony to our capability of leveraging multiple platforms in delivering the best content to our customers.

Consolidating its early success in the regional markets, our OTT business aims to further enlarge market penetration and drive subscriptions through cooperation with local telecom companies and distribution partners. We will use analytics to bring viewers the best combinations of content tailored to local tastes and Viu Original productions.

PCCW Solutions will continue to look for opportunities in the Southeast Asian markets in which it has made inroads in the past year. This will complement its presence in Hong Kong and mainland China.

On telecommunications, we are also confident that HKT, having withstood very challenging market conditions in 2017, will continue to use its strengths in infrastructure and innovation to grow its businesses.

In 2018, we will focus on maintaining our leadership in the respective markets while nurturing new business opportunities.

BG Srinivas
Group Managing Director
February 7, 2018

PCCW IN NUMBERS

16.3M
monthly active users of Viu OTT

19M
monthly active users of Viu, Now TV and ViuTV apps and online services

1.301M
installed bases of Now TV

2,000
hours of productions by domestic free TV service ViuTV

24,000+
staff in 40 countries

2,003
staff training programs and seminars

21,131
volunteer service hours in 43 ongoing and special community programs

2.638M
exchange lines

1.591M
broadband access lines

4.407M
mobile subscribers

Global data center alliance covers
134 locations in
80+ cities

Consolidated revenue
HK$37.050 billion

Consolidated EBITDA
HK$12.611 billion

Consolidated profit attributable to equity holders
HK$2.246 billion

Total dividend per share
29.75 HK cents

SIGNIFICANT EVENTS IN 2017

JANUARY

PCCW reports financial results for the year ended December 31, 2016.

FEBRUARY

PCCW announces the disposal of UK Broadband to unlock the value of the UK business. The transaction was completed in May.

MARCH

ViuTV launches its English channel ViuTVsix channel 96.

APRIL

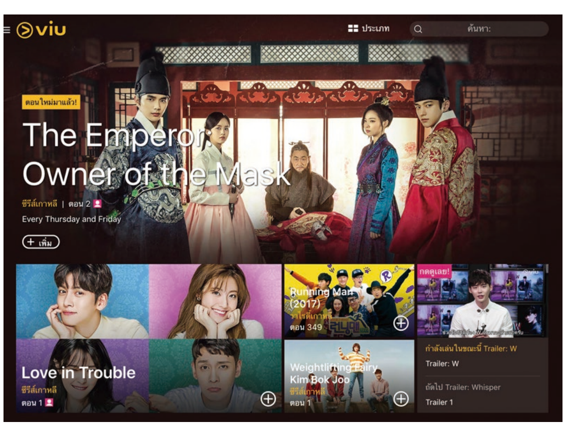
Now TV and PCCW Global deliver live broadcast of the Hong Kong Sevens in 360º virtual reality.

Viu OTT video service launches Viu Original productions.

PCCW Solutions wins a contract for the Next Generation Smart Identity Card System (SMARTICS-2) in Hong Kong.

MAY

Viu OTT video service expands its footprint to Thailand.



HKT wins the Gold Award in the media and communications sector of the Hong Kong Awards for Environmental Excellence (HKAEE) 2016.

JUNE

PCCW Solutions is selected as No.1 service provider of Data Center Hosting Services, System Integration and Application Development in Hong Kong by IDC Asia/Pacific.

JULY

NETVIGATOR launches 4x1000M Multi-Use Broadband Service.

AUGUST

PCCW reports financial results for the six months ended June 30, 2017.

Hony Capital, Foxconn Ventures and Temasek invest in PCCW's OTT international media and entertainment business.

HKT rolls out Hong Kong's first 1Gbps mobile network as a step forward to 5G.

HKT opens concept store "io.t by HKT" showcasing Internet of Things related products and services.

NOVEMBER

PCCW Solutions' smart parking and charging solution is a winner in the Global Telecoms Awards.

Now TV and ViuTV announce exclusive broadcast rights of 2018 FIFA World Cup Russia.

DECEMBER

HKT is title sponsor of the Formula E HKT Hong Kong E-Prix.

PCCW Solutions opens a new office in Singapore to facilitate expansion in Southeast Asia.

PCCW Solutions wins a contract for the Next Generation Electronic Passport System (e-Passport 2).

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

AWARDS

Award	Awardee	Scheme Organizer
15 Years Plus Caring Company Logo	PCCW	The Hong Kong Council of Social Service
49th Distinguished Salesperson Award Programme • Distinguished Salesperson Award	Now TV staff members	The Hong Kong Management Association
Award of 10,000 Hours for Volunteer Service	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Best of I.T. Awards 2016 • My Favorite Pay-TV Service • My Favorite Streaming Music Platform • The Best Cloud Platform	 Now TV MOOV PCCW Solutions	*PCM*
Best Performance Partner Award 2016	PCCW Solutions	SAP
Best Performing Partner of the Year 2016	PCCW Solutions	Red Hat
Charter on External Lighting • Platinum Award	PCCW	The Environment Bureau
2017 China Top 500 Solutions Providers • 2017 China Top 10 Cloud Services Providers • 2017 China Top 10 IT Consulting Services Providers • 2017 China Top 10 Telecom Industry Solutions Providers • 2017 China Top 100 Solutions Providers	PCCW Solutions	Business Partner Advisory Organization
ComputerWorld Hong Kong Awards 2017 • BI & Analytics • IT Outsourcing & Managed Services Provider • Software-as-a-Service Provider	PCCW Solutions	*ComputerWorld Hong Kong*
Digital Marketing Awards Asia 2017 B2B Winner of Digital Reach	PCCW Solutions	Forrester and CMO Innovation
e-Brand Awards 2017 • The Best of Network TV	Now TV	*e-Zone*
EMC Business Partner Program • Most Valuable Partner of 2016	PCCW Solutions	EMC
FY17 Partner of the Year • 1st Runner Up • Best SaaS Supporting Provider	PCCW Solutions	Oracle

Award	Awardee	Scheme Organizer
Global Telecoms Awards 2017 • Connected Cars – Highly Commended Award	PCCW Solutions	Telecoms.com
GoHome Awards 2017 • Best Entertainment TV Platform	Now TV	GoHome.com.hk
2016 Gold Award for Volunteer Service • Organization	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
HKIRA 3rd Investor Relations Awards 2017 • Best IR in Corporate Transaction – Mid Cap	PCCW	Hong Kong Investor Relations Association
Hong Kong Call Centre Association Awards 2017 • Inbound Contact Centre of the Year (Below 20 Seats) – Silver • Mystery Caller Assessment Award – Telecommunications – Gold • Outbound Contact Centre of the Year (Over 100 Seats) – Bronze • Person-to-person Telemarketing Code of Practice Certified Companies • English Speaking Contact Centre Representative of the Year – Gold • Outbound Contact Centre Manager of the Year – Gold • Outbound Contact Centre Team Leader of the Year – Gold • Outbound Contact Centre Team Leader of the Year – Merit	PCCW Media – Now TV PCCW Media – Now TV staff members	Hong Kong Call Centre Association
Hong Kong Service Awards 2017 • Pay-TV	Now TV	*East Week*
Highest Service Hour Award 2016 • Private Organisations – Category 1 – Merit	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department

PCCW Solutions wins the Connected Cars – Highly Commended Award at the Global Telecoms Awards 2017.

PCCW receives the Best IR in Corporate Transaction – Mid Cap at the HKIRA 3rd Investor Relations Awards 2017.

Award	Awardee	Scheme Organizer
2017 Kam Fan Awards • Cyber – Branded Games Single – Social – Bronze • Media – Media Single – Best Use of Small Budget (Up to HK$0.2M Media Spending) – Bronze • Media – Media Single – Best Use of Social Media – Bronze • Design & Crafts – Film Craft Single – Directing – Silver	Now TV ViuTV	The Association of Accredited Advertising Agencies of Hong Kong
Marketing Excellence Awards 2017 • Excellence in Gaming – Silver	Now TV	*Marketing Magazine*
Marketing Events Awards 2017 • Best Outdoor Event: Health and Fitness – Silver	Now TV	*Marketing Magazine*
Market Leadership Award 2016 • Market Leadership in Digital Technology	PCCW Solutions	Hong Kong Institute of Marketing
Metro Awards For Brand Excellence 2016 • Best Infotainment TV	Now TV	*Metro Daily & Metro Prosperity*
Metro Awards For Service Excellence 2017 • Excellence in Information and Entertainment Service (Pay TV)	Now TV	*Metro Daily & Metro Prosperity*
Metro Creative Awards 2017 • The Best Creative Ad	Now TV	*Metro Daily*
New Customer Acquisition of the Year 2016	PCCW Solutions	Check Point
Nutanix Partner Innovation Awards 2016 • Top Partner Contribute Most Transactions in One Single Customer	PCCW Solutions	Nutanix
PCM Biz. IT Excellence 2017 • IT Solution Excellence	PCCW Solutions	*PCM*
PromaxBDA Asia 2017 • Best Leisure & Lifestyle Promo – Gold Medal • Best Programme Title Sequence – Gold Medal	ViuTV	Promax Asia

ViuTV wins Design & Crafts – Film Craft Single – Directing – Silver at the 2017 Kam Fan Awards.

At the Marketing Excellence Awards 2017, Now TV receives the Excellence in Gaming – Silver award.

Award	Awardee	Scheme Organizer
SAP HANA Edge Quarterly Sales Hero	PCCW Solutions	SAP
SAP S/4HANA Super Star	PCCW Solutions	SAP
SMBWorld Awards 2017 • Best SMB Technology Product (Services) – Best IT Outsourcing • Best SMB Technology Product (Services) – Best Data Analytics Solution	PCCW Solutions	*SMBWorld*
Sustainable Consumption Enterprise	PCCW	Business Environment Council
The 5th Media Convergence Awards • Overall Excellence – Bronze Award • 10 Favourite Facebook Fanpages • 10 Favourite Media Websites • Top 10 Media • TV Category (Mobile) – Gold Award • TV Category (Overall) – Gold Award • TV Category (Social Media) – Gold Award • TV Category (Website) – Gold Award • Websites – Bronze Award • TV Category (Mobile) – Bronze Award • TV Category (Overall) – Bronze Award • TV Category (Social Media) – Bronze Award • TV Category (Website) – Silver Award	ViuTV Now TV	Hong Kong Association of Interactive Marketing
The 8th Hong Kong Outstanding Corporate Citizenship • Silver Award – Volunteer Team	PCCW	The Hong Kong Productivity Council
The 21st Outstanding Volunteer Award Scheme • Corporate Caring Award	PCCW	Hong Kong Sheng Kung Hui Welfare Council
The Best Industry Solution Partner 2016	PCCW Solutions	Huawei
The Markies Awards 2017 • Best Idea – Integrated Marketing – Bronze	ViuTV	*Marketing Magazine*
The Sparks Award For Media Excellence 2017 • Best Engagement Strategy – Gold Award • Best Entertainment Platform – Silver Award • Best Launch – Gold Award • Best Use of Content – Silver Award • Fast Growth Award – Gold Award	ViuTV	*Marketing Magazine*
2016 Top 10 China IT Outsourcing Service Enterprises • No. 1	PCCW Solutions	China Software and Information Service Industry Network
TOUCH Brands 2017	Now TV	*East TOUCH*

KEY FIGURES

FINANCIAL HIGHLIGHTS

For the year ended December 31, 2017
In HK$ million (except for per share data)

	2016	**2017**
Revenue		
Core revenue*	38,210	**36,886**
PCPD	174	**164**
	38,384	**37,050**
Cost of sales	(17,743)	**(16,857)**
General and administrative expenses	(15,114)	**(14,322)**
Other gains, net	32	**1,201**
Interest income	52	**134**
Finance costs	(1,429)	**(1,526)**
Share of results of associates	66	**83**
Share of results of joint ventures	(21)	**(29)**
Profit before income tax	4,227	**5,734**
Income tax	(395)	**(1,134)**
Profit for the year	3,832	**4,600**
Attributable to:		
Equity holders of the Company	2,051	**2,246**
Non-controlling interests	1,781	**2,354**
Earnings per share (in HK cents)		
Basic	26.79	**29.15**
Diluted	26.76	**29.12**
Dividend per share (in HK cents)		
Interim dividend	8.16	**8.57**
Final dividend proposed after the end of the reporting period	20.17	**21.18**
EBITDA[1]		
Core EBITDA*	12,506	**12,886**
PCPD	(280)	**(275)**
	12,226	**12,611**

* Note: Please refer to page 40. Note 1: Please refer to page 43.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard
Chairman

Mr Li, aged 51, was appointed an Executive Director and the Chairman of PCCW in August 1999. He is the Chairman of PCCW's Executive Committee and a member of the Nomination Committee of the Board. He is also the Chairman and Chief Executive of the Pacific Century Group, the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, the Chairman of HKT's Executive Committee and a member of HKT's Nomination Committee, an Executive Director and the Chairman of Pacific Century Premium Developments Limited (PCPD), the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, the Chairman and an Executive Director of Singapore-based Pacific Century Regional Developments Limited (PCRD), and the Chairman of PCRD's Executive Committee.

Mr Li is a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

Srinivas Bangalore GANGAIAH (aka BG Srinivas)
Group Managing Director

Mr Srinivas, aged 57, was appointed an Executive Director and Group Managing Director of PCCW effective from July 2014. He is a member of PCCW's Executive Committee and holds directorships in certain PCCW group companies. He is also a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust. He is also an Alternate Director of certain FWD group companies controlled by Mr Li Tzar Kai, Richard, the Chairman of PCCW.

As part of the PCCW Group's responsibility, Mr Srinivas is focused to ensure the PCCW Group maintains its leadership position in all its portfolio of business in Hong Kong while crafting strategies to expand each line of business. He has over 30 years of experience and has assisted enterprises in leveraging technology to transform businesses. Prior to joining PCCW, Mr Srinivas had worked for the previous 15 years with Infosys Group, where his last role was the President and Whole-time Director of Infosys Limited. He was also the Chairman of the board of Infosys Lodestone, Swiss based European Business consulting organization. He played distinct role in crafting strategies and driving growth across several industry sectors for Infosys. Prior to that, Mr Srinivas worked for 14 years with Asea Brown Boveri Group, where he held several leadership positions in process automation and power transmission divisions.

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 World Economic Forum, and academic institutions such as INSEAD, Saïd Business School, University of Oxford and Yale University.

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.

HUI Hon Hing, Susanna
Group Chief Financial Officer

Ms Hui, aged 53, was appointed an Executive Director of PCCW in May 2010. She is a member of PCCW's Executive Committee. She has been the Group Chief Financial Officer of PCCW since April 2007 and holds directorships in various PCCW group companies. She is also an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust. Ms Hui is a member of HKT's Executive Committee and the Group Chief Financial Officer of HKT. Prior to her appointment as the Group Chief Financial Officer of PCCW, Ms Hui was the Director of Group Finance of PCCW from September 2006 to April 2007. Before that, Ms Hui was the Director of Finance of PCCW, with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was the Chief Financial Officer of Pacific Century Premium Developments Limited from July 2009 to November 2011.

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

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

LEE Chi Hong, Robert
Executive Director
Mr Lee, aged 66, was appointed an Executive Director of PCCW in September 2002. He is a member of PCCW's Executive Committee and is a Director of certain PCCW subsidiaries. He is also an Executive Director, the Chief Executive Officer and Deputy Chairman of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee.

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

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

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

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

NON-EXECUTIVE DIRECTORS

TSE Sze Wing, Edmund, GBS
Non-Executive Director
Mr Tse, aged 80, is a Non-Executive Director of PCCW. He was an Independent Non-Executive Director of PCCW from September 2009 to March 2011 and was re-designated to a Non-Executive Director of PCCW in March 2011. He is also a member of the Regulatory Compliance Committee of the Board.

Mr Tse is the Independent Non-Executive Chairman and an Independent Non-Executive Director of AIA Group Limited. From 1996 until June 2009, Mr Tse was Director of American International Group, Inc. (AIG) and from 2001 until June 2009, he was Senior Vice Chairman – Life Insurance of AIG. From 2000 until June 2009, he was Chairman and Chief Executive Officer of American International Assurance Company, Limited and from 2005 until April 2015, he was the Chairman of The Philippine American Life and General Insurance Company. Mr Tse has held various senior positions and directorships in other AIG companies. Mr Tse is also the Non-Executive Chairman for Asia ex-Japan of PineBridge Investments Asia Limited and a Director of Bridge Holdings Company Limited which are asset management companies owned indirectly by Mr Li Tzar Kai, Richard, the Chairman of PCCW. Mr Tse was a Non-Executive Director of PICC Property and Casualty Company Limited from June 2004 until July 2014.

Mr Tse was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2001 in recognition of his outstanding efforts in respect of the development of Hong Kong's insurance industry. Mr Tse graduated with a Bachelor of Arts degree in Mathematics from the University of Hong Kong (HKU) in 1960. HKU conferred an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences on Mr Tse in 1998 and 2002 respectively. He also obtained diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has extensive management experience in the insurance market, both in Asia and globally. In 2003, Mr Tse was elected to the prestigious Insurance Hall of Fame and in 2017, Mr Tse was awarded the first ever "Lifetime Achievement Award" at the Pacific Insurance Conference in recognition of his outstanding contribution to the insurance industry. Mr Tse serves many community and professional organizations as well as educational institutions. He is also a director of AIA Foundation, which supports charitable causes in Hong Kong.

LU Yimin

Deputy Chairman

Mr Lu, aged 54, became a Non-Executive Director of PCCW in May 2008. He was appointed Deputy Chairman in November 2011 and is a member of PCCW's Executive Committee. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and a member of HKT's Remuneration Committee, Nomination Committee and Executive Committee.

Mr Lu is an Executive Director and President of China Unicom (Hong Kong) Limited. He is President 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 55, became a Non-Executive Director of PCCW in July 2007 and is a member of the Nomination Committee of the Board. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust and is a member of HKT's Regulatory Compliance Committee.

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

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

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

SHAO Guanglu

Non-Executive Director

Mr Shao, aged 53, became a Non-Executive Director of PCCW in March 2017 and is a member of the Remuneration Committee of the Board.

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

Mr Shao joined China United Telecommunications Corporation (now known as Unicom) in February 1995. Mr Shao was Deputy General Manager of Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resources Department of Unicom. In addition, Mr Shao serves as a Non-Executive Director of China Communications Services Corporation Limited.

Mr Shao received a bachelor's degree from Harbin Institute of Technology in 1985, a master's degree in engineering and a master's degree in economics from Harbin Institute of Technology in 1988 and 1990, respectively, a master's degree in management from BI Norwegian Business School in 2002 and a doctor's degree in management from Nankai University in 2009. Mr Shao has worked in the telecommunications industry for a long period of time and has extensive management experience.

For identification only

WEI Zhe, David
Non-Executive Director
Mr Wei, aged 47, is a Non-Executive Director of PCCW. He was appointed an Independent Non-Executive Director of PCCW in November 2011 and was re-designated to a Non-Executive Director of PCCW in May 2012. He is also a member of the Remuneration Committee of the Board.

Mr Wei has over 20 years of experience in both investment and operational management in the People's Republic of China. Prior to launching Vision Knight Capital (China) Fund I, L.P., a private equity investment fund in 2011, Mr Wei was an executive director and chief executive officer of Alibaba.com Limited, a leading worldwide B2B e-commerce company, from 2007 to 2011, where he successfully led the company through its initial public offering and listing on The Stock Exchange of Hong Kong Limited in 2007. Alibaba.com Limited was delisted in June 2012. Prior to Alibaba.com Limited, Mr Wei was the president, from 2002 to 2006, and chief financial officer, from 2000 to 2002, of B&Q China, the then subsidiary of Kingfisher plc, a leading home improvement retailer in Europe and Asia. Under Mr Wei's leadership, B&Q China grew to become China's largest home improvement retailer. From 2003 to 2006, Mr Wei was also the chief representative for Kingfisher's China sourcing office, Kingfisher Asia Limited. Prior to that, Mr Wei served as the head of investment banking at Orient Securities Company Limited from 1998 to 2000, and as corporate finance manager at Coopers & Lybrand (now part of PricewaterhouseCoopers) from 1995 to 1998. Mr Wei was a non-executive director of HSBC Bank (China) Company Limited and The Hongkong and Shanghai Banking Corporation Limited, an independent director of 500.com Limited and Shanghai M&G Stationery Inc., and was also the vice chairman of China Chain Store & Franchise Association. He was voted as one of "China's Best CEOs" by FinanceAsia magazine in 2010. Mr Wei is also an executive director of Zall Group Ltd., and a non-executive director of Zhong Ao Home Group Limited and JNBY Design Limited, which are listed on The Stock Exchange of Hong Kong Limited; an independent director of Leju Holdings Limited which is listed on the New York Stock Exchange; and a non-executive director of UBM plc which is listed on the London Stock Exchange.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. The Hon. Sir David LI Kwok Po,
GBM, GBS, OBE, JP, MA Cantab. (Economics & Law), Hon. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. DLitt (Macquarie), Hon. DSocSc (CUHK), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCIArb, Officier de l'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur
Independent Non-Executive Director
Sir David, aged 78, was appointed a Director of PCCW in October 2000. He was previously a Non-Executive Deputy Chairman of the former Hong Kong-listed Cable & Wireless HKT Limited and served as a Director from November 1987 to August 2000. He is a member of the Remuneration Committee, the Nomination Committee and the Regulatory Compliance Committee of the Board.

Sir David is the Chairman and Chief Executive of The Bank of East Asia, Limited. He is an Independent Non-executive Director of Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, San Miguel Brewery Hong Kong Limited and Vitasoy International Holdings Limited. He is also a Director of Hong Kong Interbank Clearing Limited. He was an Independent Non-executive Director of SCMP Group Limited (now known as Great Wall Pan Asia Holdings Limited).

Sir David is a Member of the Council of the Treasury Markets Association. He is Founding Chairman of The Friends of Cambridge University in Hong Kong Limited, Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command and Chairman of the Executive Committee of St. James' Settlement. He was a Member of the Legislative Council of Hong Kong from 1985 to 2012.

Aman MEHTA
Independent Non-Executive Director

Mr Mehta, aged 71, became an Independent Non-Executive Director of PCCW in February 2004 and is the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Board. He is also an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and the Chairman of HKT's Nomination Committee.

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

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

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

Following his retirement in December 2003, Mr Mehta took up residence in New Delhi. He is an Independent Director on the board of several public companies and institutions in India and internationally. He is an Independent Non-Executive Director of Tata Consultancy Services Limited, Godrej Consumer Products Limited, Wockhardt Limited, Tata Steel Limited and Vedanta Limited in Mumbai, India; and Max Financial Services Limited (formerly Max India Limited) in New Delhi, India. He was an Independent Non-Executive Director of Emaar MGF Land Limited, Jet Airways (India) Limited, Cairn India Limited and Vedanta Resources plc; 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 56, was appointed an Independent Non-Executive Director of PCCW effective from 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. She is also an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and the Chairwoman of HKT's Remuneration Committee, and 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.

Bryce Wayne LEE

Independent Non-Executive Director

Mr Lee, aged 52, was appointed an Independent Non-Executive Director of PCCW in May 2012 and is a member of the Audit Committee and the Remuneration Committee of the Board.

Mr Lee joined Silver Lake in 2011 and is a managing director of Silver Lake Kraftwerk. Previously, he was a managing director of Credit Suisse Group AG (Credit Suisse) in the Investment Banking division, serving as head of the Technology Group for the Americas and as co-head of the Alternative Energy Group. Mr Lee was instrumental in building a number of Credit Suisse's technology investment banking franchises and was named to Forbes magazine's "Midas List" of the top 100 technology dealmakers in the world. He was a member of Credit Suisse's Investment Banking Committee and served on the Managing Director Evaluation Committee.

Mr Lee is currently on the board of directors of Eka Software Solutions, GoEuro and Peloton Computer Enterprises, in addition to being responsible for Silver Lake Kraftwerk's investment in Didi Chuxing. Previously, he served on the board of Quorum Business Solutions. Mr Lee holds a Bachelor of Arts degree in Economics and Asian Languages from Stanford University.

Lars Eric Nils RODERT

Independent Non-Executive Director

Mr Rodert, aged 56, was appointed an Independent Non-Executive Director of PCCW in November 2012 and is a member of the Audit Committee of the Board.

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

David Christopher CHANCE

Independent Non-Executive Director

Mr Chance, aged 60, was appointed an Independent Non-Executive Director of PCCW and the Independent Non-Executive Chairman and Director of PCCW Media Limited, an indirect wholly-owned subsidiary of PCCW in November 2013.

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

David Lawrence HERZOG

Independent Non-Executive Director

Mr Herzog, aged 58, was appointed an Independent Non-Executive Director of PCCW in October 2017.

Mr Herzog retired from AIG in April 2016 after seven and a half years as the Executive Vice President and Chief Financial Officer. Mr Herzog joined American General Corporation in February 2000 as Executive Vice President and Chief Financial Officer of the Life Division. Following AIG's acquisition of American General in 2001, he was also named Chief Operating Officer for the combined U.S. domestic life insurance companies. He was elected Vice President, Life Insurance for AIG in 2003 before being named Vice President and Chief Financial Officer, Global Life Insurance in 2004. In 2005, Mr Herzog was named Comptroller, an office he held until October 2008 when he was appointed to the position from which he retired in 2016. As Chief Financial Officer for AIG, Mr Herzog oversaw the restructuring of the company, including over 50 divestitures, debt reductions and maturity profile rebalancing, repayment of the U.S. Government support with an approximate US$23 billion profit and led the Finance Team Transformation of technology, processes and talent.

Prior to joining American General, Mr Herzog held numerous positions at General American Life Insurance Company. He was Chief Financial Officer of GenAmerica Corporation, the parent company of General American Life, Reinsurance Group of America and GenCare Health along with numerous other insurance services companies. Prior to joining General American Life, Mr Herzog was Vice President and Controller for Family Guardian Life, a CitiGroup company and an Audit Supervisor with Coopers & Lybrand.

Mr Herzog serves on the board of directors of Ambac Financial Group, Inc. and is Chairman of its Audit Committee. Mr Herzog also serves on the board of directors for MetLife, Inc. and is a member of its Finance and Risk Committee, Compensation Committee and chairs the Audit Committee. Mr Herzog also serves on the board of directors of DXC Technology and is Chairman of its Audit Committee. He is a former Director of AerCap Holdings N.V. and International Lease Finance Corporation prior to its sale to AerCap. In addition, Mr Herzog has served on the boards of directors for numerous U.S. and foreign subsidiary insurance company boards.

Mr Herzog holds a bachelor's degree in Accountancy from the University of Missouri – Columbia and an M.B.A. in Finance and Economics from the University of Chicago. Additionally, he has attained the designations of Certified Public Accountant and is a Fellow in the Life Office Management Association.

Mr Herzog has served on the Federal Advisory Committee on Insurance and currently serves on the University of Missouri Trulaske College of Business Strategic Development Board. He also serves on the Investment Advisory Committee for the University of Missouri. He has also served on the board of trustees of the American College, The Logos School and The University of Missouri School of Accountancy Advisory Board. He was recognized by Treasury & Risk Magazine as one of the 100 Most Influential People in Finance and recognized by Buy-side analysts in 2014 as a leading Insurance CFO in the Institutional Investor magazine annual survey.

CORPORATE GOVERNANCE REPORT

PCCW Limited ("PCCW" or the "Company") is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of its business, and to ensure that its affairs are conducted in accordance with applicable laws and regulations.

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

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

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

CORPORATE STRATEGY

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

CORPORATE GOVERNANCE CODE

PCCW has applied the principles, and complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") in each case as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended December 31, 2017.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted its own code of conduct regarding securities transactions, namely the PCCW Code of Conduct for Securities Transactions (the "PCCW Code"), which applies to all directors and employees of the Company on terms no less exacting than the required standard indicated by the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

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

The directors' and chief executives' interests and short positions in shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations are disclosed in the Report of the Directors on pages 52 to 82 of this annual report.

BOARD OF DIRECTORS

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

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

The Chairman of PCCW is Li Tzar Kai, Richard and the Group Managing Director is BG Srinivas. The role of the Chairman is separate from that of the Group Managing Director. The Chairman is responsible for ensuring the Board functions effectively, providing leadership for the Board 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 Company in conducting its business affairs in accordance with the Company's objectives, and implementing the Group's strategies and policies. Details of the composition of the Board are set out in the Report of the Directors on pages 52 to 82 of this annual report.

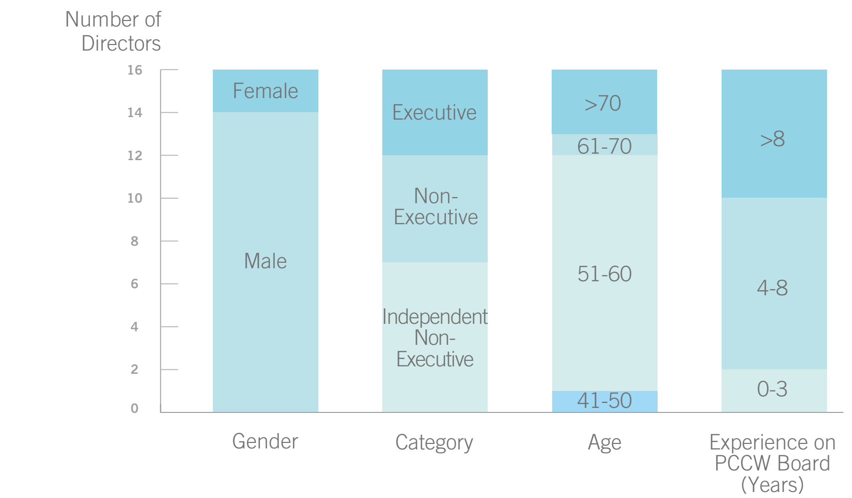
All directors have full and timely access to all relevant information, including monthly updates from the management, regular reports from various Board committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice,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

The directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the financial position of the Company and the Group and of the financial performance and cash flows of the Group for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2017, the directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; stated the reasons for any significant departure from applicable accounting standards in Hong Kong; and have prepared the financial statements on a going concern basis. The statement of the external auditor of the Company relating to its reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 83 to 91 of this annual report.

As at the date of this report, the Board is comprised of 16 directors including four executive directors, five non-executive directors and seven independent non-executive directors. At least one-third of the Board are independent non-executive directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. Biographies of all the directors are set out on pages 17 to 23 of this annual report. The relationships (including financial, business, family or other material or relevant relationships), if any, among members of the Board have also been disclosed in the Report of the Directors of this annual report.

BOARD OF DIRECTORS *(CONTINUED)*

Board Composition

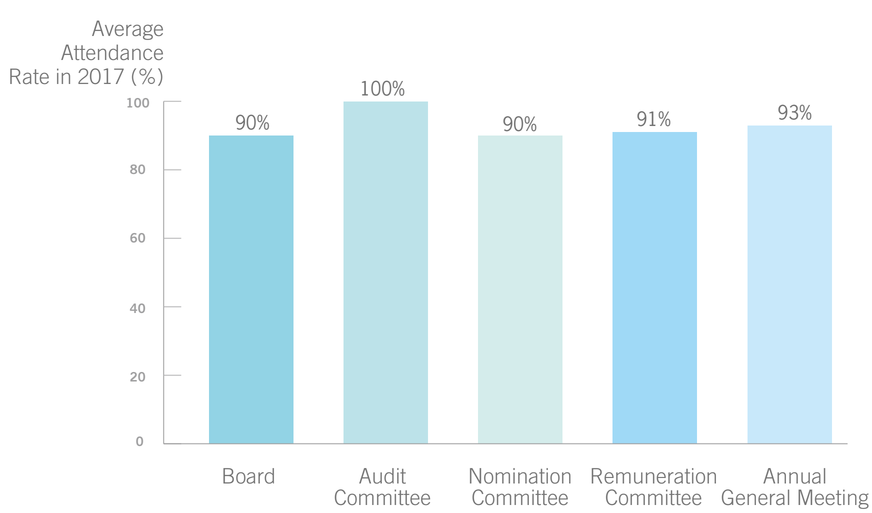


The Company has arranged appropriate directors and officers liability insurance cover for its directors and officers.

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

The Board held four meetings in 2017. The annual general meeting of the Company was held on March 17, 2017 with the attendance of the external auditor to answer questions.

Details of the average meeting attendance rate in 2017 and the attendance of individual directors at the Board and its committee meetings, and the annual general meeting held in 2017 are set out below:



BOARD OF DIRECTORS *(CONTINUED)*

Directors	Meetings attended/eligible to attend in 2017 *(Note 1)* Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Executive Directors					
Li Tzar Kai, Richard *(Chairman of the Board)*	4/4	N/A	2/2	N/A	1/1
BG Srinivas *(Group Managing Director)*	4/4	N/A	N/A	N/A	1/1
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*	4/4	N/A	N/A	N/A	1/1
Lee Chi Hong, Robert	4/4	N/A	N/A	N/A	1/1
Non-Executive Directors					
Tse Sze Wing, Edmund	4/4	N/A	N/A	N/A	1/1
Lu Yimin *(Deputy Chairman of the Board)*	3/4	N/A	N/A	N/A	1/1
Li Fushen	2/4 *(Note 6)*	N/A	1/2	N/A	1/1
Shao Guanglu *(Note 2)*	0/2 *(Note 7)*	N/A	N/A	N/A	N/A
Wei Zhe, David	4/4	N/A	N/A	2/2	1/1
Sir David Ford *(Note 3)*	3/3	N/A	N/A	N/A	1/1
Zhang Junan *(Note 4)*	0/1	N/A	N/A	0/1	N/A
Independent Non-Executive Directors					
Dr The Hon Sir David Li Kwok Po	4/4	N/A	2/2	2/2	0/1
Aman Mehta *(Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee)*	4/4	3/3	2/2	2/2	1/1
Frances Waikwun Wong	4/4	N/A	2/2	2/2	1/1
Bryce Wayne Lee	4/4	3/3	N/A	2/2	1/1
Lars Eric Nils Rodert	4/4	3/3	N/A	N/A	1/1
David Christopher Chance	4/4	N/A	N/A	N/A	1/1
David Lawrence Herzog *(Note 5)*	1/1	N/A	N/A	N/A	N/A

Notes:

1. Directors may attend meetings in person, by telephone or through other means of video conference or by their alternate directors in accordance with the Company's articles of association (the "Articles of Association").

2. Appointed as a Non-Executive Director and a member of the Remuneration Committee with effect from the conclusion of the annual general meeting held on March 17, 2017.

3. Ceased to be a Non-Executive Director with effect from September 9, 2017.

4. Resigned as a Non-Executive Director and a member of the Remuneration Committee with effect from March 10, 2017.

5. Appointed as an Independent Non-Executive Director with effect from October 9, 2017.

6. Attendance at one Board meeting was by an alternate director of Li Fushen appointed in accordance with the Articles of Association which was not counted as attendance by the director himself in accordance with the requirements of the CG Code.

7. Attendance at one Board meeting was by an alternate director of Shao Guanglu appointed in accordance with the Articles of Association which was not counted as attendance by the director himself in accordance with the requirements of the CG Code.

BOARD OF DIRECTORS *(CONTINUED)*

The Company has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all seven independent non-executive directors as at the date of this report, namely, Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee, Lars Eric Nils Rodert, David Christopher Chance and David Lawrence Herzog are still independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules. Please also refer to the details disclosed in the section headed "**Independent Non-Executive Directors**" in the Report of the Directors of this annual report.

According to the Articles of Association, any director so appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company (as the case may be) and shall be eligible for re-election at that meeting. In addition, at each annual general meeting of the Company no less than one-third of the directors for the time being shall 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 Articles of Association, each non-executive director has a term of three years. Therefore, no director will remain in office for a term of more than three years. The directors who shall retire from office at the forthcoming annual general meeting of the Company are set out on page 60 of this annual report.

The Board has a structured process to evaluate its own performance and directors' contribution on an annual basis including a self-evaluation questionnaire which is completed by directors. The objectives of the evaluation are to assess whether the Board and the committees, as well as the directors have adequately and effectively performed its/their roles and fulfilled its/their responsibilities; have devoted sufficient time commitment to the Company's affairs; and to recommend areas for improvement. The evaluation process has confirmed that the Board 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 for the year ended December 31, 2017 were generally satisfactory.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

As part of an ongoing process of director's training, the directors of the Company 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 Company 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, namely, Li Tzar Kai, Richard, BG Srinivas, Hui Hon Hing, Susanna, Lee Chi Hong, Robert, Tse Sze Wing, Edmund, Lu Yimin, Li Fushen, Shao Guanglu, Wei Zhe, David, Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee, Lars Eric Nils Rodert, David Christopher Chance, David Lawrence Herzog, Sir David Ford and Zhang Junan, have received the requisite director's training. The Company has received confirmation from all directors of their respective training records for the year ended December 31, 2017.

BOARD COMMITTEES

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

Executive Committee and Sub-committees

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

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

The members of the Executive Committee are:
Li Tzar Kai, Richard *(Chairman)*
BG Srinivas
Hui Hon Hing, Susanna
Lee Chi Hong, Robert
Lu Yimin

BOARD COMMITTEES *(CONTINUED)*

Executive Committee and Sub-committees *(continued)*

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

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

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

Remuneration Committee

The Remuneration Committee was formed in May 2003 with the primary objective of ensuring that PCCW is able to attract, retain and motivate high-caliber employees who will underpin the success of the Company and enhance the value of the Company to shareholders.

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

The members of the Remuneration Committee during the year and up to the date of this annual report are:
Aman Mehta *(Chairman)*
Dr The Hon Sir David Li Kwok Po
Wei Zhe, David
Shao Guanglu
(appointed with effect from the conclusion of the annual general meeting held on March 17, 2017)
Frances Waikwun Wong
Bryce Wayne Lee
Zhang Junan
(resigned with effect from March 10, 2017)

BOARD COMMITTEES *(CONTINUED)*

Remuneration Committee *(continued)*

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

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

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

The Remuneration Committee met two times in 2017. The attendance of individual directors at the committee meetings is set out on page 27 of this annual report.

The work performed by the Remuneration Committee during 2017 included:

(i) review and approval of the emoluments of executive directors and senior management, including 2016 performance bonus and incentive payment;

(ii) review and approval of the 2017 business key performance indicators and performance bonus scheme for executive directors and senior management;

(iii) review of the non-executive directors' fees for 2017; and

(iv) review of the terms of reference of the Remuneration Committee.

Details of emoluments of each director and senior executives are set out in note 11 to the consolidated financial statements.

Nomination Committee

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

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

BOARD COMMITTEES *(CONTINUED)*

Nomination Committee *(continued)*

The Nomination Committee conducted an annual review of the Board's composition taking into account the Board Diversity Policy at its meeting held on February 7, 2018 and formed the view that the 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)*
Dr The Hon Sir David Li Kwok Po
Li Tzar Kai, Richard
Li Fushen
Frances Waikwun Wong

The Nomination Committee met two times in 2017. The attendance of individual directors at the committee meeting is set out on page 27 of this annual report.

The work performed by the Nomination Committee during 2017 included:

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

(ii) consideration and recommendation to the Board for approval the list of retiring directors for re-election at the 2017 annual general meeting;

(iii) recommendation to the Board for approval the appointments of Shao Guanglu as a Non-Executive Director of the Company and David Lawrence Herzog as an Independent Non-Executive Director of the Company after consideration of a range of diversity perspectives;

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

(v) review of the terms of reference of the Nomination Committee.

Audit Committee

The Audit Committee of the Board is responsible for assisting the Board to ensure objectivity and credibility of financial reporting, and that the directors have exercised the care, diligence and skills prescribed by law when presenting the Group's results to the shareholders. The Audit Committee is also responsible for assisting the Board to ensure effective risk management and internal control systems of the Group are in place and good corporate governance standards and practices are maintained within the 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 HKEX.

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

The 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 pre-approved by the Audit Committee.

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

During the year, the external auditor provided audit, audit related and permissible non-audit services to the Group. Audit services include services provided in connection with the audit of the 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, and accounting advice related to material transactions, 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, 2017, the fees paid or payable in respect of audit, audit related and permissible non-audit services provided to the Group by the external auditor amounted to approximately HK$29 million, HK$3 million and HK$3 million, respectively.

At its meeting held on February 7, 2018, the Audit Committee recommended to the Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2018 at the forthcoming annual general meeting.

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

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

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports. During 2017, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 27 of this annual report.

The work performed by the Audit Committee during 2017 included:

(i) review of the annual report and the annual results announcement for the year ended December 31, 2016, with a recommendation to the Board for approval;

(ii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report to the Audit Committee and the management representation letter for the year ended December 31, 2016, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2017 annual general meeting;

(iii) review and assessment of effectiveness of risk management and internal control systems under the CG Code for the year ended December 31, 2016, with a recommendation to the Board for approval;

(iv) review of the continuing connected transactions (including PricewaterhouseCoopers' report on the continuing connected transactions) for the year ended December 31, 2016, with a recommendation to the 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 interim report and the interim results announcement for the six months ended June 30, 2017, with a recommendation to the Board for approval;

(vii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report to the Audit Committee and the management representation letter for the six months ended June 30, 2017;

(viii) review and approval of the audit strategy memorandum for the year ending December 31, 2017;

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

(ix) review and approval of PricewaterhouseCoopers' audit engagement letter for the year ending December 31, 2017;

(x) review and approval of PricewaterhouseCoopers' pre-year end report to the Audit Committee for the year 2017;

(xi) consideration and approval of the 2017 audit and non-audit services and pre-approval of the 2018 annual budget for audit and non-audit services;

(xii) review of the corporate governance report and practices for the year ended December 31, 2016 and the corporate governance disclosure for the six months ended June 30, 2017, with a recommendation to the Board for approval;

(xiii) review of the environmental, social and governance report for the year ended December 31, 2016, with a recommendation to the Board for approval;

(xiv) review and approval of the update reports on the risk management and internal control systems of the Group during the year;

(xv) review of the setting of new annual caps in respect of the continuing connected transactions with the China Unicom Group for the three financial years ending December 31, 2020 and of the related announcement by PCCW, with a recommendation to the 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, 2016 to evaluate the performance of the Board, its committees, and directors' contribution, with a recommendation to the Board for approval;

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

(xviii) review of the terms of reference of the Audit Committee.

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 the Group's risk management and internal control systems all for the year ended December 31, 2017, with recommendations to the Board for approval.

Regulatory Compliance Committee

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

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

REGULATORY COMPLIANCE COMMITTEE OF PCCW MEDIA LIMITED

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

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its 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 Company 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 Board and/or the Audit Committee 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 Committee at each regularly scheduled meeting, and other sub-committees as appropriate, including amongst other things, significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the 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 Committee 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.

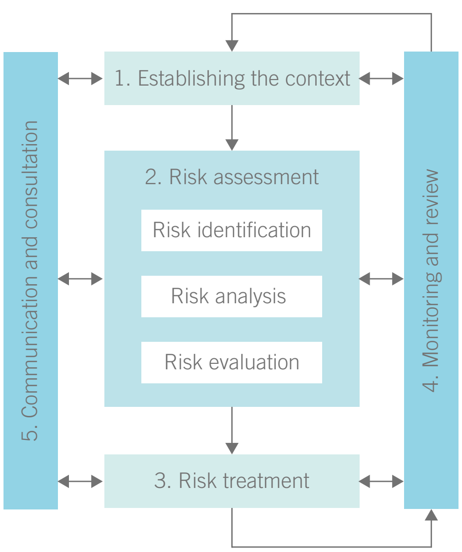
RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

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

Group Internal Audit provides independent assurance to the Board, the Audit Committee 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 Chairman of the Audit Committee, the Group Managing Director and the Group Chief Financial Officer.

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 Board and/or the Audit Committee 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. Risk Management and Compliance department tracks the progress of risk mitigating activities; reports the consolidated view of risks regularly to Audit Committee and other sub-committees as appropriate; and shares risk knowledge across Business Units to enhance the risk management standard of the Group. Group Internal Audit reports regularly to the Board and/or Audit Committee to provide independent assurance on the effectiveness of risk management function.

The Company 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 Company and its business practices in the future.

The Company 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.

RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

The Audit Committee has established and oversees 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 Chairman of the Audit Committee has designated the Head of Group Internal Audit to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations to him for consideration by the Audit Committee.

The Company 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.

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

During 2017, 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 Board and the Audit Committee 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 2017, 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 were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations 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.

COMPANY SECRETARY

Ms Bernadette M. Lomas has been appointed the Group General Counsel and Company Secretary of the Company since August 2016. She is also the Group General Counsel and Company Secretary of HKT Management Limited (the trustee-manager of the HKT Trust) and HKT. All directors have access to the advice and services of the company secretary, who is responsible for ensuring that the board procedures are followed, advising the Board 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, 2017, Ms Lomas has received no less than 15 hours of relevant professional training to refresh her skills and knowledge.

SHAREHOLDERS' RIGHTS

Procedures to convene a general meeting and put forward proposals at general meetings

Shareholder(s) representing at least 5% of the total voting rights of all the shareholders of the Company having a right to vote at general meetings may request the directors to call a general meeting of the Company pursuant to the Hong Kong Companies Ordinance. The request must state the general nature of the business to be dealt with, and may include the text of a resolution that may properly be moved and is intended to be moved at the general meeting. The request may be sent to the Company at the registered office of the Company in hard copy form or in electronic form for the attention of the company secretary, and must be authenticated by the person(s) making it.

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

Procedures by which enquiries may be put to the Board

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

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

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

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

In addition to dispatching this annual report to the shareholders, financial and other information relating to the Group and its business activities is disclosed on the Company's website in order to promote effective communication.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS *(CONTINUED)*

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 216 of this annual report and also provided in the Shareholders Communication Policy.

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

CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2017, there were no changes to the constitutional documents of the Company. An up to date set of Articles of Association of the Company is available on the websites of the Company and HKEX.

By order of the Board

Bernadette M. Lomas
Group General Counsel and Company Secretary
Hong Kong, February 7, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Core revenue (excluding Mobile handset sales) was steady at HK$34,526 million
- Core revenue decreased by 3% to HK$36,886 million

- Consolidated revenue (excluding Mobile handset sales) was steady at HK$34,690 million
- Consolidated revenue decreased by 3% to HK$37,050 million

- Core EBITDA increased by 3% to HK$12,886 million
- Consolidated EBITDA increased by 3% to HK$12,611 million

- Core profit attributable to equity holders of the Company increased by 7% to HK$2,561 million
- Consolidated profit attributable to equity holders of the Company increased by 10% to HK$2,246 million

- Basic earnings per share amounted to 29.15 HK cents

- Final dividend of 21.18 HK cents per ordinary share

MANAGEMENT REVIEW

We are pleased to report that PCCW delivered a satisfactory set of financial results for the year ended December 31, 2017 underpinned by the business resilience and operational efficiency improvements at HKT Limited ("HKT") as well as steady progress in the Media and Solutions businesses.

HKT recorded sustained growth in the Telecommunications Services ("TSS") segment and a steady performance in the Mobile segment while Mobile handset sales declined. The Solutions, over-the-top ("OTT") media and Free TV businesses demonstrated continued growth momentum although this was partially offset by the softer average revenue per user ("ARPU") on the back of retention efforts at Now TV. As such, core revenue decreased by 3% to HK$36,886 million.

The solid growth in EBITDA for both HKT and the Solutions businesses contributed to the overall 3% growth in core EBITDA to HK$12,886 million for the year ended December 31, 2017, despite our continued investments in the OTT and Free TV segments of the Media business.

The projects at PCPD are progressing as planned and are expected to contribute to the Group in the coming years. Consolidated revenue for the year ended December 31, 2017 decreased by 3% to HK$37,050 million and consolidated EBITDA increased by 3% to HK$12,611 million.

During the year, PCCW disposed of its non-core wireless broadband business in the United Kingdom ("UKBB") and recognized a gain on disposal. After accounting for the reduction in PCCW's attributable interest in HKT following the placement of an approximate 11% interest, consolidated profit attributable to equity holders of the Company increased by 10% to HK$2,246 million. Basic earnings per share were 29.15 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 21.18 HK cents per ordinary share for the year ended December 31, 2017.

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

OUTLOOK

PCCW has been able to progress its businesses in accordance with our plans in the past year. The Group successfully completed a number of strategic activities, including PCCW's partial sell down of its stake in HKT, the introduction of strategic and financial investors to the OTT Media business and the divestment of UKBB which all contributed to the strengthening of the Group's overall capital structure and unlocking value within the Group.

This year, Now TV will seek to further enhance the viewing experience with richer content and more on-demand programming to capture the online and on-the-go viewing segments. Our exclusivity in broadcasting the 2018 FIFA World Cup Russia™ on both pay TV and free TV is a testimony to our capability of leveraging multiple platforms in delivering the best content to our customers.

Consolidating its early success in the regional markets, our OTT business aims to further enlarge market penetration and drive subscriptions through cooperation with local telecom companies and distribution partners. We will use analytics to bring viewers the best combination of content tailored to local tastes and Viu Original productions.

PCCW Solutions will continue to look for opportunities in the Southeast Asian markets in which it has made inroads in the past year. This will complement its presence in Hong Kong and mainland China.

On telecommunications, we are also confident that HKT, having withstood very challenging market conditions in 2017, will continue to use its strengths in infrastructure and innovation to grow its businesses.

In 2018, we will focus on maintaining our leadership in the respective markets while nurturing new business opportunities.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	**2017 H1**	**2017 H2**	**2017 Full Year**	Better/ (Worse) y-o-y
Revenue							
HKT	16,388	17,459	33,847	**15,649**	**17,609**	**33,258**	(2)%
HKT (excluding Mobile handset sales)	14,611	15,811	30,422	**14,622**	**16,276**	**30,898**	2%
Mobile handset sales	1,777	1,648	3,425	**1,027**	**1,333**	**2,360**	(31)%
Now TV Business	1,391	1,509	2,900	**1,350**	**1,397**	**2,747**	(5)%
Free TV Business	52	108	160	**94**	**91**	**185**	16%
OTT Business	271	312	583	**337**	**381**	**718**	23%
Solutions Business	1,587	2,235	3,822	**1,685**	**2,317**	**4,002**	5%
Other Businesses	30	30	60	**30**	**–**	**30**	(50)%
Eliminations	(1,310)	(1,852)	(3,162)	**(1,569)**	**(2,485)**	**(4,054)**	(28)%
Core revenue	18,409	19,801	38,210	**17,576**	**19,310**	**36,886**	(3)%
PCPD	115	59	174	**107**	**57**	**164**	(6)%
Consolidated revenue	18,524	19,860	38,384	**17,683**	**19,367**	**37,050**	(3)%
Cost of sales	(8,494)	(9,249)	(17,743)	**(7,961)**	**(8,896)**	**(16,857)**	5%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(4,421)	(3,994)	(8,415)	**(4,089)**	**(3,493)**	**(7,582)**	10%
EBITDA[1]							
HKT	5,865	6,819	12,684	**5,968**	**7,029**	**12,997**	2%
Now TV Business	184	229	413	**154**	**233**	**387**	(6)%
Free TV Business	(68)	(115)	(183)	**(116)**	**(128)**	**(244)**	(33)%
OTT Business	(109)	(126)	(235)	**(125)**	**(129)**	**(254)**	(8)%
Solutions Business	254	507	761	**263**	**584**	**847**	11%
Other Businesses	(304)	(408)	(712)	**(304)**	**(348)**	**(652)**	8%
Eliminations	(92)	(130)	(222)	**(91)**	**(104)**	**(195)**	12%
Core EBITDA[1]	5,730	6,776	12,506	**5,749**	**7,137**	**12,886**	3%
PCPD	(121)	(159)	(280)	**(116)**	**(159)**	**(275)**	2%
Consolidated EBITDA[1]	5,609	6,617	12,226	**5,633**	**6,978**	**12,611**	3%
Core EBITDA[1] Margin	*31%*	*34%*	*33%*	***33%***	***37%***	***35%***	
Consolidated EBITDA[1] Margin	*30%*	*33%*	*32%*	***32%***	***36%***	***34%***	
Depreciation	(860)	(914)	(1,774)	**(851)**	**(791)**	**(1,642)**	7%
Amortization	(2,348)	(2,580)	(4,928)	**(2,550)**	**(2,536)**	**(5,086)**	(3)%
Gain/(Loss) on disposal of property, plant and equipment, net	2	1	3	**(8)**	**(4)**	**(12)**	n/a
Other (losses)/gains, net	(53)	85	32	**1,190**	**11**	**1,201**	>500%
Interest income	27	25	52	**58**	**76**	**134**	158%
Finance costs	(627)	(802)	(1,429)	**(790)**	**(736)**	**(1,526)**	(7)%
Share of results of associates and joint ventures	19	26	45	**(35)**	**89**	**54**	20%
Profit before income tax	1,769	2,458	4,227	**2,647**	**3,087**	**5,734**	36%

Note 1 *EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties, interests in leasehold land and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*

Note 2 *Gross debt refers to the principal amount of short-term borrowings and long-term borrowings.*

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

HKT

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	**2017 H1**	**2017 H2**	**2017 Full Year**	Better/ (Worse) y-o-y
HKT Revenue	16,388	17,459	33,847	**15,649**	**17,609**	**33,258**	(2)%
HKT Revenue (excluding Mobile handset sales)	14,611	15,811	30,422	**14,622**	**16,276**	**30,898**	2%
Mobile handset sales	1,777	1,648	3,425	**1,027**	**1,333**	**2,360**	(31)%
HKT EBITDA[1]	5,865	6,819	12,684	**5,968**	**7,029**	**12,997**	2%
HKT EBITDA[1] Margin	*36%*	*39%*	*37%*	***38%***	***40%***	***39%***	
HKT Adjusted Funds Flow	2,051	2,632	4,683	**2,129**	**2,783**	**4,912**	5%

HKT delivered a solid set of financial results for the year ended December 31, 2017, reflecting the resilience of all of its lines of business as well as continued operating efficiency improvements despite intense industry competition throughout the year.

Total revenue for the year ended December 31, 2017 decreased by 2% to HK$33,258 million due to the lower revenue contribution from Mobile handset sales. Excluding Mobile handset sales, underlying revenue for the year increased by 2% to HK$30,898 million, as compared to HK$30,422 million a year earlier.

Total EBITDA for the year was HK$12,997 million, an increase of 2% over the previous year, underpinned by operating efficiency improvements in both the Mobile and TSS businesses.

Adjusted funds flow for the year ended December 31, 2017 reached HK$4,912 million, an increase of 5% over the previous year.

HKT recommended the payment of a final distribution of 36.75 HK cents per share stapled unit for the year ended December 31, 2017. This brings the 2017 full-year distribution to 64.87 HK cents per share stapled unit, representing the full payout of the annual adjusted funds flow per share stapled unit.

For a more detailed review of the performance of HKT, please refer to its 2017 annual results announcement released on February 6, 2018.

Now TV Business

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	**2017 H1**	**2017 H2**	**2017 Full Year**	Better/ (Worse) y-o-y
Now TV Business Revenue	1,391	1,509	2,900	**1,350**	**1,397**	**2,747**	(5)%
Now TV Business EBITDA[1]	184	229	413	**154**	**233**	**387**	(6)%
Now TV Business EBITDA[1] Margin	*13%*	*15%*	*14%*	***11%***	***17%***	***14%***	

Leveraging its strong content offering and high quality viewing experience, Now TV successfully stabilized its installed base at 1,301,000 at the end of the year with an exit ARPU of HK$179, lower than the exit ARPU of HK$192 twelve months prior. Revenue was also impacted by the shift in advertising spending to other platforms, including OTT as well as our own free TV service. As a result, revenue for the Now TV business for the year ended December 31, 2017 softened by 5% to HK$2,747 million from HK$2,900 million a year ago.

However, there was a marked improvement in the EBITDA margin from 11% in the first half of 2017 to 17% in the second half of 2017, reflecting successful efforts by Now TV to rationalize its content costs as the competition environment turned more benign. As a result, EBITDA for the year ended December 31, 2017 was HK$387 million, as compared to HK$413 million a year ago.

Now TV will continue to maintain its status as the leading provider of high quality, premium content including exclusive top tier sports events such as the 2018 FIFA World Cup Russia™, while continuously improving its customer experience and engagement.

Free TV Business

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	**2017 H1**	**2017 H2**	**2017 Full Year**	Better/ (Worse) y-o-y
Free TV Business Revenue	52	108	160	**94**	**91**	**185**	16%
Free TV Business EBITDA[1]	(68)	(115)	(183)	**(116)**	**(128)**	**(244)**	(33)%

Revenue at the Free TV business grew by 16% to HK$185 million for the year ended December 31, 2017 from HK$160 million a year ago. Despite the entrance of a new player, revenue growth was driven by further investments in self-produced local programs, including dramas which attracted local viewership as well as overseas distribution. The launch of the new English channel ViuTVsix in March 2017 also contributed to the revenue growth.

Due to the continued investments in content and the launch of ViuTVsix, the EBITDA loss was HK$244 million for the year ended December 31, 2017, compared to an EBITDA loss of HK$183 million a year ago.

ViuTV will continue to produce dramas as well as its signature factual entertainment programs to address not only local but also audiences overseas. ViuTV will also be broadcasting selected matches during the 2018 FIFA World Cup Russia™, offering free access to a world-class event for the Hong Kong public.

OTT Business

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	**2017 H1**	**2017 H2**	**2017 Full Year**	Better/ (Worse) y-o-y
OTT Business Revenue	271	312	583	**337**	**381**	**718**	23%
OTT Business EBITDA[1]	(109)	(126)	(235)	**(125)**	**(129)**	**(254)**	(8)%

Revenue for the OTT business, comprising both our OTT video and music services, grew significantly by 23% to HK$718 million for the year ended December 31, 2017, from HK$583 million a year ago. This rapid growth was driven by the expansion in the monthly active user base to 16.3 million as a result of the continued take-up of our OTT services in existing and new markets. Our OTT services are now available in 27 markets across Asia, the Middle East and Africa compared to 18 markets a year ago.

The OTT business operates a freemium model generating revenue from both subscription services as well as advertising which, during the year, represented 75% and 25% respectively of the total revenue for the year ended December 31, 2017. This mix reflects the premium, locally relevant content that users are willing to pay for as well as the high engagement and broad viewership that is attracting advertisers to our OTT platform.

The longer form premium Viu service has recorded over 1.8 billion cumulative video views since its launch in 2015 with users consuming, on average, over 17 videos per week. In Hong Kong, Singapore, Malaysia, Indonesia, the Philippines and Thailand, users spend approximately 1–2 hours watching content on Viu per day. These encouraging viewership statistics were underpinned by an expanding library of self-produced and co-produced original content, the Viu Original programming.

Due to our investments in content, user acquisitions and new market launches, the OTT business recorded an EBITDA loss of HK$254 million for the year ended December 31, 2017, which widened only slightly from the EBITDA loss of HK$235 million a year ago.

During the year, the OTT business received an investment of US$110 million (equivalent to approximately HK$859 million) from a group of strategic and financial investors to support the further development of the business including content development and user acquisition.

Solutions Business

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	**2017 H1**	**2017 H2**	**2017 Full Year**	Better/ (Worse) y-o-y
Solutions Business Revenue	1,587	2,235	3,822	**1,685**	**2,317**	**4,002**	5%
Solutions Business EBITDA[1]	254	507	761	**263**	**584**	**847**	11%
Solutions Business EBITDA[1] Margin	*16%*	*23%*	*20%*	***16%***	***25%***	***21%***	

The Solutions business recorded a 5% increase in revenue to HK$4,002 million for the year ended December 31, 2017, from HK$3,822 million a year ago. This increase in revenue was attributable to the delivery of business transformation services for enterprise customers and large scale, mission critical projects in the public sector.

During the year, the Solutions business successfully executed landmark projects for the HKSAR Government such as the Immigration Department which contributed to the increase in the proportion of revenue contribution from the Public Sector to 26% for the year ended December 31, 2017 from 24% a year ago.

For the year ended December 31, 2017, the Solutions business also provided highly reliable data center services to a number of large High-Tech & Media customers to support their regional growth, leading to a revenue contribution increase in the High-Tech & Media sector from 8% a year ago to 10% and an increase in the Digital, Cloud Solutions & Infrastructure sector from 28% to 33%.

The higher margin and recurring nature of cloud and infrastructure solutions drove the contribution of recurring revenue up by 11% and for the year ended December 31, 2017, represented 59% of the total revenue. These solutions also contributed to the EBITDA margin improvement to 21%. For the year ended December 31, 2017, EBITDA increased by 11% to HK$847 million from HK$761 million a year ago.

The Solutions business had secured orders with a value of HK$7,359 million as at December 31, 2017, an increase of 12% from twelve months ago. Significant wins included the Hong Kong Next Generation Electronic Passport System project for the Immigration Department and the provision of data center services to support a number of global cloud service providers.

PCPD

PCPD recorded total revenue of HK$164 million and an EBITDA loss of HK$275 million for the year ended December 31, 2017, compared with total revenue of HK$174 million and an EBITDA loss of HK$280 million a year earlier.

Pacific Century Place ("PCP") Jakarta, PCPD's premium office building in Jakarta, Indonesia, was substantially completed and in operation in the fourth quarter. Citibank Indonesia, Sotheby's Hong Kong Limited, and Garena have begun to move in gradually. The leasing of the office space is progressing well and we expect the building to generate stable recurring rental income for PCPD.

PCPD continued to witness a rising number of tourists visiting Hokkaido and the Japanese government is also poised to strengthen its marketing efforts to boost the tourism industry over the next few years. PCPD will make the best of this opportunity and launch the remaining units of the Park Hyatt Hotel and Branded Residences in the next two years.

PCPD's recently announced redevelopment project at Nos. 3-6 Glenealy, Central, is expected to become another landmark project of PCPD.

For a more detailed review of the performance of PCPD, please refer to its 2017 annual results announcement released on February 5, 2018.

Other Businesses

Other Businesses primarily comprises corporate support functions and UKBB. Revenue from Other Businesses was HK$30 million for the year ended December 31, 2017 (2016: HK$60 million), which was primarily generated by UKBB up until its disposal in May 2017. The EBITDA cost of the Group's Other Businesses was HK$652 million in 2017 (2016: HK$712 million), of which HK$49 million was associated with UKBB.

The Group disposed of UKBB for an aggregate consideration of GBP300 million (equivalent to approximately HK$3,011 million) of which GBP250 million (equivalent to approximately HK$2,509 million) was paid in cash.

Eliminations

Eliminations for the year ended December 31, 2017 were HK$4,054 million (2016: HK$3,162 million). This continues to reflect the growing collaboration amongst various business segments of the Group to take advantage of our capabilities in offering integrated products and services to consumers and enterprise customers. It also represented intragroup system upgrading work carried out by the Solutions business to deliver the next generation customer management system to enable HKT to deliver a better customer experience.

COSTS

Cost of Sales

For the year ended December 31, HK$ million	2016 H1	2016 H2	2016 Full Year	**2017 H1**	**2017 H2**	**2017 Full Year**	Better/ (Worse) y-o-y
HKT	6,973	7,472	14,445	**6,508**	**7,653**	**14,161**	2%
The Group (excluding PCPD)	8,457	9,230	17,687	**7,936**	**8,884**	**16,820**	5%
Consolidated	8,494	9,249	17,743	**7,961**	**8,896**	**16,857**	5%

HKT's cost of sales for the year ended December 31, 2017 decreased by 2% to HK$14,161 million reflecting lower Mobile handset sales during the year. Gross margin for HKT was stable at 57%.

Cost of sales for the core businesses decreased by 5%. Gross margin for the core businesses was stable at 54%.

The Group's consolidated total cost of sales for the year ended December 31, 2017 decreased by 5% to HK$16,857 million.

General and Administrative Expenses

During the year, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, ("operating costs") decreased by 10% to HK$7,582 million as a result of the full year impact of the cost synergies from the integration of CSL Holdings Limited ("CSL") and continued improvement in operating efficiencies at HKT in areas such as cell site rental, third-party backhaul, call center integration, and publicity and promotion. The benefits were offset by additional investments in the Media business to support the growth of the OTT and Free TV businesses. As a result, the operating costs to revenue ratio declined to 20% from 22% a year ago.

Depreciation and amortization expenses remained stable at HK$6,728 million for the year ended December 31, 2017. Depreciation expenses declined by 7% during the year as a result of the Group's periodic review of the useful lives of its network assets. Amortization expenses increased by 3% largely arising from increased investments in content at the OTT and Free TV businesses in the Media segment. Content related amortization for the year was HK$528 million, as compared to HK$396 million a year ago.

General and administrative expenses, therefore, decreased by 5% to HK$14,322 million for the year ended December 31, 2017.

EBITDA[1]

Core EBITDA for the year ended December 31, 2017 increased by 3% to HK$12,886 million, mainly driven by the 5% growth in Mobile Services EBITDA at HKT and the 11% increase in the Solutions business. Accordingly, the core EBITDA margin improved to 35% from 33% a year ago. Consolidated EBITDA also increased by 3% to HK$12,611 million for the year with the margin improving to 34%.

Other Gains, Net

Net other gains of HK$1,201 million were recorded for the year ended December 31, 2017, as compared to HK$32 million a year ago, predominantly as a result of the gain recognized from the disposal of UKBB that was completed in May 2017.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2017 increased to HK$134 million as a result of the increased cash balances of the Group. Finance costs increased by 7% to HK$1,526 million as a result of increased borrowings at HKT and at PCPD to provide funds to support ongoing and future development projects. These increases were offset by the substantial reduction in bank borrowings at the PCCW level during the year. As a result, net finance costs were relatively stable at HK$1,392 million for the year ended December 31, 2017 compared to HK$1,377 million in 2016.

The average cost of debt was 3.0% in 2017, as compared to 2.7% a year ago reflecting the increased proportion of fixed rate borrowings.

Income Tax

Income tax expense for the year ended December 31, 2017 was HK$1,134 million, as compared to HK$395 million a year ago, representing an effective tax rate of 20% for the year. There was higher tax expense at HKT due to the increase in taxable profits, the full utilization of the tax loss of a company in 2016 resulting from the CSL integration and a one-time non-cash charge due to a reassessment of deferred income tax assets associated with the enactment of the 2017 tax reform legislation in the United States.

The income tax expense at the PCCW level increased as a result of higher profits at the Solutions business and the impact of the 2017 tax reform legislation in the United States. The increase also reflected the recognition of a deferred income tax asset on tax losses in 2016.

Non-controlling Interests

Non-controlling interests were HK$2,354 million for the year ended December 31, 2017 (2016: HK$1,781 million), which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD. The increase in non-controlling interests is mainly driven by the higher free float following PCCW's partial sell-down of its stake in HKT and an increase in profits at HKT.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2017 increased by 10% to HK$2,246 million (2016: HK$2,051 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 February 2017, the Group placed 840,747,000 share stapled units of HKT Trust and HKT ("Share Stapled Units") at a price of HK$10.15 per share stapled unit, raising approximately HK$8,361 million in net proceeds. In May 2017, the Group disposed of UKBB. Net cash proceeds of approximately HK$2,393 million was received. The Group used a portion of these proceeds to repay a portion of bank borrowings at the PCCW level leaving primarily long term bonds in the capital structure. In September 2017, the OTT business received net cash proceeds of US$110 million (equivalent to approximately HK$859 million) from a group of investors.

In March 2017, PCPD took advantage of a favorable market window and raised US$570 million 5-year guaranteed notes at a coupon of 4.75%. The proceeds are to support ongoing and future property developments including the current projects in Hokkaido, Japan and Jakarta, Indonesia.

The Group's gross debt[2] was HK$47,580 million as at December 31, 2017 (December 31, 2016: HK$46,428 million). Cash and short-term deposits totaled HK$13,267 million as at December 31, 2017 (December 31, 2016: HK$5,210 million). At PCCW (excluding HKT and PCPD), there was a net cash position of HK$2,206 million as at December 31, 2017.

As at December 31, 2017, the Group had a total of HK$37,851 million in committed bank loan facilities available for liquidity management, of which HK$15,492 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$27,381 million, of which HK$5,698 million remained undrawn.

The Group's gross debt[2] to total assets was 52% as at December 31, 2017 (December 31, 2016: 58%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2017, Hong Kong Telecommunications (HKT) Limited, an indirect non-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[3]

Group capital expenditure for the year ended December 31, 2017 was HK$3,410 million (2016: HK$3,227 million), of which HKT accounted for about 78% (2016: 89%). Capital expenditure at HKT declined as the CSL integration was completed in 2016 and shifted towards increased investments to meet the higher demand for HKT's fiber broadband and IoT related services, customized network solutions for enterprises and continued submarine cable investments for the International business. There was an increase in capital expenditure by the Media business largely for upgrading its production studio facilities as well as an increase in capital expenditure by the Solutions business to expand its data center capacity to fulfill existing demand. There was also an increase in capital expenditure at PCPD to support the construction of PCP Jakarta, an office building and the Park Hyatt Hotel and Branded Residences project and the ski operation in Hokkaido, Japan.

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

HEDGING

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

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

As for financing, a significant portion of the Group's debt is denominated in foreign currencies including United States dollars. Accordingly, the Group has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2017, all forward and swap contracts were designated as cash flow hedges and/or fair value hedges for the related borrowings of the Group.

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

CHARGE ON ASSETS

As at December 31, 2017, certain assets of the Group with an aggregate carrying value of HK$1,128 million (2016: HK$3,373 million) were pledged to secure certain bank loan facilities of the Group. As at December 31, 2016, performance guarantee of approximately HK$161 million received in relation to the construction of the premium office building in Jakarta, Indonesia was pledged for certain bank loan facilities. This pledge was released during the year ended December 31, 2017.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2016	**2017**
Performance guarantees	923	**572**
Others	76	**130**
	999	**702**

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

HUMAN RESOURCES

The Group had over 24,000 employees as at December 31, 2017 (2016: 25,000) located in over 46 countries and cities. About 63% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 21.18 HK cents (2016: 20.17 HK cents) per ordinary share for the year ended December 31, 2017 to shareholders whose names appear on the register of members of the Company on Thursday, May 17, 2018, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Thursday, May 10, 2018 ("AGM"). An interim dividend of 8.57 HK cents (2016: 8.16 HK cents) per ordinary share for the six months ended June 30, 2017 was paid to shareholders of the Company in October 2017.

FINANCIAL INFORMATION

REPORT OF THE DIRECTORS

The board of directors (the "Board") presents its report together with the audited consolidated financial statements of PCCW Limited ("PCCW" or the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, and the principal activities of the 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; the provision of interactive pay-TV services, Internet portal digital media entertainment platform in the Hong Kong Special Administrative Region ("Hong Kong") and other parts of the world; investments in, and development of, systems integration, network engineering, and technology-related businesses; and development and management of premium-grade property and infrastructure projects as well as premium-grade property investments. Through HK Television Entertainment Company Limited ("HKTVE"), PCCW also operates a domestic free television service in Hong Kong.

The principal activities of the Company's principal subsidiaries, and the principal associates and joint venture of the Group are set out in notes 21 to 23 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 7 to the consolidated financial statements.

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 2017 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 3, pages 4 to 7 and pages 40 to 50 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.

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

Growth Strategy – The Group's business strategy is to focus on the growth of its media and IT solutions' 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 strategies.

In addition, the Group continues to expand its operations overseas. This increases its exposure to multiple and occasionally conflicting regulatory regimes, including an increasing number of which that include extra-territorial provisions. 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.

Principal Risks and Uncertainties *(continued)*

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 probability 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 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. 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 38 to the consolidated financial statements.

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 the technologies it adopts 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.

Economic Environment – The global financial markets remain highly volatile 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.

BUSINESS REVIEW *(CONTINUED)*

Principal Risks and Uncertainties *(continued)*

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 Broadcasting Ordinance (Cap. 562), 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.

Geopolitical – Through the activities of the Group's property development interests (Pacific Century Premium Developments), the Group may be exposed to the effects of adverse changes in foreign government policies and regulations, in particular regarding ownership and land supply controls; taxation and currency controls; building codes and approvals; and labour regulations. These may impact on the Group's ability to complete on schedule or budget, and the properties may not achieve anticipated occupancy or returns.

Property Development – The time and the costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labour; adverse weather conditions; natural disasters; labour disputes with contractors and subcontractors; accidents; changes in government priorities; and unforeseen problems or circumstances. The occurrence of any of these factors could give rise to delays in the completion of a project and result in cost overruns. This may also result in the profit on development for a particular property not being recognized in the year in which it was originally anticipated to be recognized.

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, PCCW recognizes the importance of good environmental stewardship. In this connection, PCCW has in place a Corporate Social Responsibility ("CSR") Policy and other related policies and procedures. A CSR Committee sets forth and promulgates the Company's environmental strategy and other CSR initiatives.

The Group actively participates in various external environmental working groups. PCCW is a council member of Business Environment Council. PCCW is also a member of WWF-Hong Kong and The Green Earth.

In 2017, PCCW continued to voluntarily disclose its carbon footprint data for inclusion into the Environmental Protection Department's Carbon Footprint Repository.

To minimize light nuisance, PCCW and its telecommunications flagship, HKT Limited ("HKT") have been supporting the WWF's annual Earth Hour campaign for years. PCCW is a signatory to the "Charter on External Lighting" scheme of the Environment Bureau and in 2017 received the Platinum Award for switching off external lighting at selected shops at designated hours.

Environmental Policies and Performance *(continued)*

The Group incorporates environmentally friendly considerations into sustainable business operations. Electric vehicle charging solutions are provided through an equal joint venture, Smart Charge (HK) Limited, between HKT and CLP Holdings Limited to encourage electric mobility for a cleaner environment. HKT and its subsidiaries (collectively the "HKT Limited Group") have been investing in modernizing air-conditioning systems and equipment at the exchange buildings with better energy efficiency to reduce energy consumption. We have well-established practices in recycling scrap metals which include copper, iron and steel as well as scrap materials. We also promote handset recycling across our shop network. The Group 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. E-billing is also offered to customers in a bid to reduce paper consumption.

To raise employee awareness of resource conservation, the Group launched a series of programs such as Printer Cartridge Collection Program and "Go Green Labels" in offices. Green workshops and conservation days were also organized periodically. Our internal newsletter publishes a regular "Green Matters" column, which provides information on environmental issues and the Group's green initiatives.

In 2017, HKT received the Gold Award in the media and communications sector at the Hong Kong Awards for Environmental Excellence 2016. HKT also won the Biggest Units Saver Award (Organization) of the Power Smart Energy Saving Contest 2016 organized by Friends of the Earth (HK).

PCCW Solutions data centers are designed and maintained to the highest level of environmental standards. All power supplies including Uninterruptible Power Supply, air-conditioning systems, backup generators and other electrical and mechanical signaling services for our facilities have adopted the most advanced environmental-friendly technologies and measures. Our efforts in the data center have earned us the Leadership in Energy and Environmental Design ("LEED") Platinum accreditation and ISO 14001:2015 certification for Environmental Management System.

Pacific Century Premium Developments also aims to develop green buildings by meeting internationally-recognized standards in sustainable development and environmental protection. Pacific Century Premium Developments head office in Hong Kong has been recognized as Green Office by the World Green Organisation since 2016.

Environmental-related key performance indicators have been included in the PCCW Environmental, Social and Governance Report 2017.

Relationships with Stakeholders

PCCW 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.

PCCW 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, rewards, training and career development. This commitment is incorporated in our Corporate Responsibility Policy and all of the Group's related policies. We strive to build an inclusive workplace, investing in staff engagement and well-being as well as ensuring that every PCCW employee can reach their full potential.

We have been positioning ourselves as an Employer of Choice with a view to attracting and retaining talented individuals to sustain a diverse and vibrant workforce. The Group continues to expand its global presence and our workforce now comprises employees from over 50 nationalities with a diverse range of expertise and backgrounds. 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.

BUSINESS REVIEW *(CONTINUED)*

Relationships with Stakeholders *(continued)*

PCCW believes direct and effective communication is essential to building up a strong partnership between management and employees. We have established channels for employees to share feedback and suggestions with senior management, understand company and business development, including face-to-face meetings and forums, "Let's Chat" sessions and town hall style gatherings.

We have established robust succession and strong talent pipeline, comprehensive training and leadership programs to nurture the capabilities we need to fuel business growth. In addition, we embark on continual development initiatives to ensure our staff's knowledge and skills remain current with advances in technology and business acumen. The Company also offers fresh graduates opportunities to build a career in the fast-paced technology sector through a well-structured Graduate Trainee Program.

Employee safety is of paramount importance and we make every effort to provide a safe working environment. Accident prevention is an important factor for consideration when selecting new designs, procedures and equipment. We launched the Group Safety Charter in 2017 to uplift our safety standard and strengthen the safety culture.

The Group operates Hong Kong's leading telecommunications and pay-TV services 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. With a commitment to transforming customers' lifestyle through continuous innovation, PCCW has extended service offerings beyond connectivity into areas such as Smart Living to help customers build a modern and convenient home. An "io.t by HKT" concept store was opened during the year to promote Internet of Things (IoT) technology in customers' daily lives.

To ensure a high level of customer satisfaction, our customer service representatives can be reached via service hotlines, website live chat, online enquiry in My HKT portal, or at retail shops and customer service centers. We also invited customers to participate in Customer Satisfaction Survey, Customer Transaction Survey and Net Promoter Score Survey to help us evaluate the service quality and gain customer feedback. In 2017, a number of retail shops were equipped with portable ramps to enable easier access by wheelchair users and the elderly.

In recognition of our outstanding customer service, among other awards, we won more than 100 awards in different categories at the Contact Center World, Hong Kong Association for Customer Service Excellence, Hong Kong Call Centre Association, Hong Kong Retail Management Association, Hong Kong Tourism Board, and Mystery Shopper Service Association in 2017. The Group also received over 37,000 customer compliments in 2017. In addition, the HKT Limited Group has in place a customer loyalty and rewards program, The Club, offering a wide variety of privileges to customers.

PCCW 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 review and assessment visits throughout the year, targeting our major suppliers and contractors, and will communicate with the suppliers with unsatisfactory rating for rectification or improvements. As an ISO 9001 certified company, our quality management system ensures that our products consistently meet regulatory requirements and customer expectations.

BUSINESS REVIEW *(CONTINUED)*

Relationships with Stakeholders *(continued)*

PCCW supports the community through a diverse range of initiatives serving the elderly, students and youth, children, people with disabilities and other groups. Being the premier telecommunications provider in Hong Kong, the HKT Limited Group provides hardware and communications services for charities and various community groups in need. We also strive to connect elderly people with technologies that promote active and smart aging. In 2017, a virtual reality workshop was organized for the elderly. Through "Smart Pama" smartphone workshops, seniors are able to enjoy the convenience brought by technology. 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 equip students and youth with skills and resources to excel in the digital age, 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 by providing free computer coding and digital skill workshops for girls from underprivileged backgrounds.

The Group's corporate volunteer team, comprising employees, their family members and company retirees, last year ran 26 ongoing programs and 17 special programs for various charities and social services groups. In 2017, the volunteer team was once again given the Award of 10,000 Hours for Volunteer Service and the Merit of Highest Service Hour Award 2016 (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 2016. The volunteer team also won the Silver 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 2017. In appreciation of the commitment of staff volunteers, PCCW operates a Volunteer Appreciation Scheme whereby employees participating in community services may be entitled to volunteer leave days.

PCCW has been a Caring Company of Hong Kong Council of Social Service's Caring Company Scheme for more than 15 years.

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 Broadcasting Ordinance (Cap. 562), 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 PCCW. 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.

BUSINESS REVIEW *(CONTINUED)*

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

Broadcasting Ordinance ("BO")

The Company, through its subsidiary, PCCW Media Limited, holds a domestic pay-TV programme services licence. The pay-TV market in Hong Kong is highly competitive. Under the BO, licensees have various programming and compliance obligations. Breaches of the BO, the relevant licence conditions and/or CA's policies may lead to fines (up to HK$1 million) or licence revocation in extreme cases.

The Company, through its economic interest in HKTVE, was granted a free television programme service licence in April 2015 and HKTVE has launched its free television services in April 2016. The CA has concurrent jurisdiction for licensees under the BO.

Trade Descriptions Ordinance ("TDO")

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

Competition Ordinance ("CO")

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

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.

GROUP RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2017 are set out in the consolidated income statement on page 92.

An interim dividend of 8.57 HK cents per ordinary share (2016: 8.16 HK cents per ordinary share), totaling approximately HK$662 million, was paid to shareholders of the Company in October 2017.

The Board has recommended the payment of a final dividend of 21.18 HK cents per ordinary share (2016: 20.17 HK cents per ordinary share) for the year ended December 31, 2017, subject to the approval of shareholders of the Company at the forthcoming annual general meeting.

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 215.

FIXED ASSETS

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

BORROWINGS

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

SHARES ISSUED

There were no new shares of the Company (the "Shares") issued during the year ended December 31, 2017. Details of the share capital of the Company for the year ended December 31, 2017 are set out in note 29 to the consolidated financial statements.

DEBENTURES ISSUED

During the year, US$570 million 4.75% guaranteed notes due 2022 were issued by PCPD Capital Limited, an indirect non-wholly owned subsidiary of the Company, at a price of 100% of the principal amount with net proceeds of US$565.2 million (approximately HK$4,390.6 million) for servicing general corporate debt and general corporate purposes of Pacific Century Premium Developments Limited ("PCPD") and its subsidiaries (the "PCPD Group").

RESERVES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2017, 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 who held office in the Company during the year and up to the date of this report are:

Executive Directors

Li Tzar Kai, Richard *(Chairman)*
Srinivas Bangalore Gangaiah (aka BG Srinivas) *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*
Lee Chi Hong, Robert

Non-Executive Directors

Tse Sze Wing, Edmund, GBS	
Lu Yimin *(Deputy Chairman)*	
Li Fushen	
Shao Guanglu	(appointed with effect from the conclusion of the annual general meeting held on March 17, 2017)
Wei Zhe, David	
Sir David Ford, KBE, LVO	(ceased with effect from September 9, 2017)
Zhang Junan	(resigned with effect from March 10, 2017)

Independent Non-Executive Directors

Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP	
Aman Mehta	
Frances Waikwun Wong	
Bryce Wayne Lee	
Lars Eric Nils Rodert	
David Christopher Chance	
David Lawrence Herzog	(appointed with effect from October 9, 2017)

In accordance with Article 91 of the Company's articles of association, Shao Guanglu and David Lawrence Herzog shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's articles of association, Tse Sze Wing, Edmund, Lu Yimin, Aman Mehta and Bryce Wayne Lee shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

A list of names of the directors who held office in the Company's subsidiaries during the year and up to the date of this report is available on the Company's website (www.pccw.com).

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

With respect to Aman Mehta, on February 15, 2013, Pacific Century Regional Developments Limited ("PCRD", a substantial shareholder of the Company) announced the execution of a term sheet between PCRD Services Pte Ltd ("PCRD Services", a wholly-owned subsidiary of PCRD) and, amongst the others, KSH Distriparks Private Limited ("KSH"), Pasha Ventures Private Limited ("Pasha Ventures"), Aman Mehta (an independent non-executive director of the Company) and Akash Mehta (the adult son of Aman Mehta) (together, the "Mehta Family") and Sky Advance Associates Limited ("Sky Advance", a company 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 or PCCW.

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

DIRECTORS' SERVICE CONTRACTS

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

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

As at December 31, 2017, the directors and chief executives of the Company and their respective close associates had the following interests and short positions in the shares, share stapled units jointly issued by HKT Trust and HKT (the "Share Stapled Units"), underlying shares, underlying Share Stapled Units and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules:

1. Interests in the Company

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

	Number of ordinary Shares held					
Name of Director/Chief Executive	Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of Shares 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%
Srinivas Bangalore Gangaiah	336,835	–	–	549,761 *(Note 2)*	886,596	0.01%
Hui Hon Hing, Susanna	4,412,414	–	–	1,513,482 *(Note 2)*	5,925,896	0.08%
Lee Chi Hong, Robert	992,600 *(Note 3(a))*	511 *(Note 3(b))*	–	–	993,111	0.01%
Tse Sze Wing, Edmund	–	367,479 *(Note 4)*	–	–	367,479	0.005%
Dr The Hon Sir David Li Kwok Po	1,132,611	–	–	–	1,132,611	0.01%

Notes:

1. (a) Of these Shares, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 269,471,956 Shares and Eisner Investments Limited ("Eisner") held 38,222,413 Shares. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.

1. Interests in the Company *(continued)*

Notes: *(continued)*

1. (b) These interests represented:

   (i) a deemed interest in 175,312,270 Shares 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 175,312,270 Shares held by PCGH; and

   (ii) a deemed interest in 1,753,529,954 Shares 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 1,753,529,954 Shares held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.06% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard.

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

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

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

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

2. Interests in the Associated Corporations of the Company

A. HKT Trust and HKT Limited

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

Name of Director/Chief Executive	Number of Share Stapled Units held Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of Share Stapled Units in issue
Li Tzar Kai, Richard	–	–	66,247,614 *(Note 1(a))*	144,786,423 *(Note 1(b))*	211,034,037	2.79%
Srinivas Bangalore Gangaiah	58,175	–	–	249,664 *(Note 2)*	307,839	0.004%
Hui Hon Hing, Susanna	2,603,398	–	–	686,792 *(Note 3)*	3,290,190	0.04%
Lee Chi Hong, Robert	50,924 *(Note 4(a))*	25 *(Note 4(b))*	–	–	50,949	0.0007%
Tse Sze Wing, Edmund	–	246,028 *(Note 5)*	–	–	246,028	0.003%
Dr The Hon Sir David Li Kwok Po	200,000	–	–	–	200,000	0.003%

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

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

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

Each Share Stapled Unit confers an interest in:

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

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

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

Notes:

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

   (b) These interests represented:

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

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

2. These interests represented awards made to BG Srinivas which were subject to certain vesting conditions pursuant to an award scheme of the Company, namely the Purchase Scheme, the details of which are set out in the section below headed "**Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries**".

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 HKT, namely the Purchase Scheme and the HKT Share Stapled Units Purchase Scheme, the details of which are set out in the section below headed "**Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries**".

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

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

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

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

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

B. PCPD Capital Limited

The table below sets out the aggregate long positions in the 4.75% bonds due 2022 (the "2022 Bonds") issued by PCPD Capital Limited, an associated corporation of the Company, held by the directors and chief executives of the Company:

	Principal amount of the 2022 Bonds held (US$)				
Name of Director/Chief Executive	Personal interests	Family interests	Corporate interests	Other interests	Total
Li Tzar Kai, Richard	–	–	70,000,000 *(Note 1)*	–	70,000,000
Lee Chi Hong, Robert	2,250,000 *(Note 2)*	–	–	–	2,250,000
Frances Waikwun Wong	–	–	–	500,000 *(Note 3)*	500,000

Notes:

1. These 2022 Bonds were held by Ultimate Talent Limited, a wholly-owned subsidiary of Elderfield Limited ("Elderfield"). Li Tzar Kai, Richard owned 100% of the issued share capital of Elderfield.
2. These 2022 Bonds were held jointly by Lee Chi Hong, Robert and his spouse.
3. These 2022 Bonds were held by Frances Waikwun Wong in the capacity of the founder of a discretionary trust.

Save as disclosed in the foregoing, as at December 31, 2017, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in any shares, Share Stapled Units, underlying shares, underlying Share Stapled Units and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

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

1. The Company

A. Share Option Scheme

The Company operates a share option scheme which was adopted by the shareholders of the Company at the annual general meeting of the Company held on May 8, 2014 (the "2014 Scheme"). Under the 2014 Scheme, the Board shall be entitled to offer to grant a share option to any eligible participant whom the Board may, at its absolute discretion, select. The major terms of the 2014 Scheme are set out below:

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

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

(3) 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 the Company 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 9.43% of the Shares in issue as at that date.

(4) The total number of Shares issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2014 Scheme 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 the Company, 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.

(5) 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 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.

(6) 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.

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

1. The Company *(continued)*

A. Share Option Scheme *(continued)*

(7) 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.

(8) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing 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, 2017.

B. Share Award Schemes

The Company adopted two 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 Group and to attract suitable personnel for further development of the Group.

Participants of the PCCW Share Award Schemes include any director or employee of the Company and its participating companies.

The PCCW Share Award Schemes are administered by the Board, any committee or sub-committee of the Board and/or any person delegated with the power and authority to administer all or any aspects of the respective PCCW Share Award Schemes (the "Approving Body") and an independent trustee (the "Trustee") appointed to hold the relevant Shares/Share Stapled Units until such time as the Shares/Share Stapled Units vest in the selected participants.

Pursuant to the scheme rules, no sum of money shall be set aside and no Shares/Share Stapled Units shall be purchased or subscribed (as the case may be), nor any amounts paid to the Trustee for the purpose of making such a purchase or subscription, if, as a result of such purchase or subscription, the number of Shares/Share Stapled Units administered under the schemes and any other scheme of a similar nature adopted by the Company and/or any of its subsidiaries would represent in excess of 1% of the Shares in issue and/or 1% of the Share Stapled Units in issue (as the case may be) from time to time, (excluding Shares/Share Stapled Units which have been transferred to selected participants on vesting) and provided further that the Approving Body may resolve to increase such limit at its sole discretion.

In respect of the Purchase Scheme, the Approving Body shall 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 or set aside certain Shares/Share Stapled Units. Where a sum of money has been set aside (or a number of Shares/Share Stapled Units has been determined) by the Approving Body, it shall pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Shares/Share Stapled Units from the relevant company's resources and the Trustee will then apply the same towards the purchase of the relevant Shares/Share Stapled Units on the Stock Exchange pursuant to the trust deed.

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

1. The Company *(continued)*

B. Share Award Schemes *(continued)*

In respect of the Subscription Scheme, the Approving Body shall either (i) determine a notional cash amount; or (ii) determine a number of Shares/Share Stapled Units which it wishes to be the subject of a bonus award or set aside certain Shares/Share Stapled Units. Where a notional cash amount has been determined by the Approving Body, the Approving Body shall determine the maximum number of Shares/Share Stapled Units, rounded down to the nearest whole number, which could be acquired with such notional cash amount on the Stock Exchange. The Approving Body shall pay (or cause to be paid) an amount equal to the aggregate subscription price for either (i) the maximum number of Shares/Share Stapled Units, rounded down to the nearest whole number, which could be acquired with such notional cash amount on the Stock Exchange (where the Approving Body has determined a notional cash amount); or (ii) the number of Shares/Share Stapled Units (where the Approving Body has determined such number) which amount shall be as directed by the Company and/or HKT but is expected only to be a nominal amount per Share/Share Stapled Unit, or such other amount as may be required to effect the allotment pursuant to the relevant general mandate of the issuer) from the relevant company's resources and the Trustee shall then apply the same towards the subscription of Shares/Share Stapled Units. No Shares/Share Stapled Units shall be allotted unless and until the Company 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 shall have been approved by the Board and/or the board of directors of HKT (the "HKT Board") (as the case may be) or any committee of the Board and/or the HKT Board (as the case may be), and the shareholders of the Company 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 a selected participant, the relevant Shares/Share Stapled Units are held in trust for that selected participant and then shall vest over a period of time determined by the Approving Body provided that the selected participant remains at all times up to and including the relevant vesting date (or, as the case may be, each relevant vesting date) an employee or director of the Company or the relevant participating company and satisfies any other conditions specified at the time the award is made, notwithstanding that the Approving Body shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, selected participants are not required to provide any consideration in order to acquire the Shares/Share Stapled Units awarded to him/her under the schemes.

The Purchase Scheme and the Subscription Scheme expired on November 15, 2012 however the Shares which were previously awarded prior to the expiry date were not affected. New scheme rules in respect of the Purchase Scheme and the Subscription Scheme were adopted on November 15, 2012 so as to allow both schemes to continue to operate for a further 10 years and to accommodate the grant of the Share Stapled Units in addition or as an alternative to the Shares, in the future, in respect of which the most recent changes were approved by the Approving Body on February 7, 2018. The Approving Body may by resolution terminate the operation of the schemes at any time subject to the terms of the schemes.

In respect of the Purchase Scheme, during the year ended December 31, 2017, an aggregate of 5,324,103 Shares and 1,465,453 Share Stapled Units were awarded pursuant to the Purchase Scheme subject to certain vesting conditions, including awards in respect of 420,524 Shares and 191,489 Share Stapled Units made to BG Srinivas, and 1,056,622 Shares and 218,964 Share Stapled Units made to Hui Hon Hing, Susanna (both of them are directors of the Company). Additionally, 1,027,788 Shares have lapsed and/or been forfeited and 5,087,009 Shares have vested; and 73,308 Share Stapled Units have lapsed and/or been forfeited and 624,184 Share Stapled Units have vested during the year. As at December 31, 2017, 6,715,129 Shares and 1,952,743 Share Stapled Units awarded pursuant to the Purchase Scheme remained unvested.

In respect of the Subscription Scheme, during the year ended December 31, 2017, an aggregate of 4,163,473 Shares were awarded pursuant to the Subscription Scheme subject to certain vesting conditions. Additionally, 405,105 Shares have lapsed and/or been forfeited and 3,389,545 Shares have vested during the year. As at December 31, 2017, 5,667,498 Shares awarded pursuant to the Subscription Scheme remained unvested. During the year ended December 31, 2017, no Share Stapled Units have been awarded to any employees of the Company and/or its subsidiaries under the Subscription Scheme. As at January 1, 2017 and December 31, 2017, no Share Stapled Units awarded pursuant to the Subscription Scheme remained unvested.

As at the date of this annual report, an aggregate of 12,382,627 Shares and 1,952,743 Share Stapled Units awarded pursuant to the PCCW Share Award Schemes remained unvested, which respectively represent approximately 0.16% of the total number of Shares in issue and 0.03% of the total number of Share Stapled Units in issue as at that date.

Further details of the PCCW Share Award Schemes, including the fair values of the Shares and the Share Stapled Units on the respective dates of award, are set out in note 31(b) to the consolidated financial statements.

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

2. HKT Trust and HKT Limited

A. Share Stapled Units Option Scheme

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

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

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

(3) (i) Notwithstanding any other provisions of the HKT 2011-2021 Option Scheme, no options may be granted under the HKT 2011-2021 Option Scheme if the exercise of the 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 HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 unless the approval of holders of Share Stapled Units has been obtained.

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

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 HKT 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 HKT, or any of their respective associates) under the HKT 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the HKT 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 HKT, 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.

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

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

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

(5) The HKT 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 HKT 2011-2021 Option Scheme shall be determined by the Trustee-Manager Board and the HKT Board, provided that such terms and conditions shall not be inconsistent with the HKT 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 HKT by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price for grants requiring approval of holders of Share Stapled Units in accordance with the provisions of the HKT 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 HKT Board and the Trustee-Manager Board, the HKT 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 HKT 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 HKT 2011-2021 Option Scheme since its adoption and up to and including December 31, 2017.

B. Share Stapled Units Award Schemes

On October 11, 2011, HKT 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, in respect of which the most recent changes were approved by the HKT Approving Body (as defined below) on February 6, 2018 (collectively the "HKT Share Stapled Units Award Schemes"). The purposes of the HKT Share Stapled Units Award Schemes are to incentivize and reward 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 participants.

Participants of the HKT Share Stapled Units Award Schemes include any director or employee of HKT or any of its subsidiaries.

The HKT Share Stapled Units Award Schemes are administered by the HKT Board, any committee or sub-committee of the HKT Board and/or any person delegated with the power and authority to administer all or any aspects of the respective HKT Share Stapled Units Award Schemes (the "HKT Approving Body") 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.

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

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

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

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 selected 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, the Company'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 HKT 2011-2021 Option Scheme, and all other rights or entitlements granted by HKT 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) HKT does not have a relevant general mandate or specific mandate from holders of the 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 HKT Approving Body shall 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 or set aside certain Share Stapled Units. Where a sum of money has been set aside (or a number of Share Stapled Units has been determined) by the HKT Approving Body, it shall pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Share Stapled Units 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.

In respect of the HKT Share Stapled Units Subscription Scheme, the HKT Approving Body shall either (i) determine a notional cash amount; or (ii) determine a number of Share Stapled Units which it wishes to be the subject of a bonus award or set aside certain Share Stapled Units. Where a notional cash amount has been determined by the HKT Approving Body, the HKT Approving Body shall determine the maximum number of Share Stapled Units, rounded down to the nearest whole number, which could be acquired with such notional cash amount on the Stock Exchange. The HKT Approving Body shall pay (or cause to be paid) an amount equal to the aggregate subscription price for either (i) the maximum number of Share Stapled Units, rounded down to the nearest whole number, which could be acquired with such notional cash amount on the Stock Exchange (where the HKT Approving Body has determined a notional cash amount); or (ii) the number of Share Stapled Units (where the HKT Approving Body has determined such number) which amount shall be as directed by HKT but is expected only to be a nominal amount per Share Stapled Unit, or such other amount as may be required to effect the allotment pursuant to the relevant general mandate of HKT from the HKT Limited Group's resources, and the Trustee shall then apply the same towards the subscription of Share Stapled Units, provided always that no Share Stapled Units shall be allotted in respect of such subscription unless and until HKT shall have received from the Stock Exchange a grant of the listing of, and permission to deal in, such Share Stapled Units and unless and until such allotment shall have been approved by the HKT Approving Body and the holders of the Share Stapled Units (where required).

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

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

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

Subject to the relevant scheme rules, each scheme provides that following the making of an award to a selected participant, the relevant Share Stapled Units are held in trust for that selected participant and then shall vest over a period of time determined by the HKT Approving Body provided that the selected participant remains at all times up to and including the relevant vesting date (or, as the case may be, each relevant vesting date) an employee or director of the HKT Limited Group and satisfies any other conditions specified at the time the award is made, notwithstanding that the HKT Approving Body shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, selected participants are not required to provide any consideration in order to acquire the Share Stapled Units awarded to him/her under the schemes.

The HKT 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 HKT Approving Body 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, 2017, an aggregate of 2,392,160 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 262,177 Share Stapled Units made to Hui Hon Hing, Susanna (a director of the Company). Additionally, 119,259 Share Stapled Units have lapsed and/or been forfeited and 4,647,596 Share Stapled Units have vested during the year.

As at the date of this annual report, an aggregate of 3,389,562 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested, which represents approximately 0.04% 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, 2017.

Further details of the HKT 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 31(d)(ii) to the consolidated financial statements.

3. Pacific Century Premium Developments Limited

Share Option Scheme

PCPD operates a share option scheme which was adopted by its shareholders at PCPD's annual general meeting held on May 6, 2015, and became effective on May 7, 2015 following its approval by the shareholders of the Company (the "2015 PCPD Scheme"). Under the 2015 PCPD Scheme, the board of directors of PCPD (the "PCPD Board") shall be entitled to offer to grant a share option to any eligible participant whom the PCPD Board may, at its absolute discretion, select. The major terms of the 2015 PCPD Scheme are set out below:

(1) The purpose of the 2015 PCPD Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in PCPD and to encourage eligible participants to work towards enhancing the value of PCPD and its shares (the "PCPD Shares") for the benefit of PCPD and its shareholders as a whole.

(2) Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of the PCPD Group or any member of it, whether in full time or part time employment of the PCPD Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the PCPD Group or any member of it and any other person whomsoever is determined by the PCPD Board as having contributed to the development, growth or benefit of the PCPD Group or any member of it or as having spent any material time in or about the promotion of the PCPD Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2015 PCPD Scheme.

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

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

Share Option Scheme *(continued)*

(3) The maximum number of PCPD Shares in respect of which options may be granted under the 2015 PCPD Scheme shall not in aggregate exceed 10% of the PCPD Shares in issue as at the date of adoption of the 2015 PCPD Scheme. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders' approval. The overall limit on the number of PCPD Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 PCPD Scheme and other share option schemes of PCPD must not exceed 30% of the PCPD Shares in issue from time to time. As at the date of this annual report, the total number of PCPD Shares available for issue in respect of which options may be granted under the 2015 PCPD Scheme is 40,266,831, representing approximately 10% of the PCPD Shares in issue as at that date.

(4) The total number of PCPD Shares issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of PCPD, or any of their respective associates) under the 2015 PCPD Scheme in any 12-month period shall not exceed 1% of the PCPD 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 PCPD, or any of their respective associates, the said limit is reduced to 0.1% of the PCPD Shares in issue and HK$5 million in aggregate value based on the closing price of the PCPD 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.

(5) The 2015 PCPD 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 2015 PCPD Scheme shall be determined by the PCPD Board, provided that such terms and conditions shall not be inconsistent with the 2015 PCPD Scheme and no option may be exercised 10 years after the date of grant.

(6) The 2015 PCPD 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.

(7) The exercise price in relation to each option shall not be less than the higher of (i) the closing price of the PCPD 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 PCPD 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 PCPD Shares on the Stock Exchange.

(8) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the PCPD Board, the 2015 PCPD 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 2015 PCPD Scheme shall remain in full force and effect in all other respects.

No share options have been granted under the 2015 PCPD Scheme since its adoption and up to and including December 31, 2017.

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

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the year or subsisted at the end of the year are set out below:

The Group has the share option schemes and the share award schemes with details set out in the section above headed "**Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries**" and note 31 to the consolidated financial statements.

As at December 31, 2017, there also subsisted in the Group certain outstanding bonus convertible notes issued by PCPD in 2012 in the aggregate amount of HK$592,553,354.40 convertible into 1,185,106,708 ordinary PCPD Shares at the conversion price of HK$0.50 per PCPD Share. The bonus convertible notes can be converted into PCPD Shares at any time provided that PCPD's minimum public float requirements under the Listing Rules could be complied with.

On August 10, 2017, the Group entered into a subscription agreement with three investors (the "OTT Investors"), pursuant to which the Group will allot and issue to the OTT Investors an aggregate of 11,000,000 series A convertible redeemable voting preference shares (the "OTT Preference Shares") of a par value of US$1.00 each in the capital of an indirect wholly-owned subsidiary of the Company ("PCCW OTT"), representing approximately 18% of its enlarged issued share capital, for a total consideration of US$110 million (approximately HK$859 million). The net proceeds from the issuance of the OTT Preference Shares will be used as the general working capital of PCCW OTT. The OTT Preference Shares confer certain customary rights such as dividend, preference in liquidation, and are redeemable at the original subscription price at the end of five years if certain contingent event has not occurred. PCCW OTT also granted an option (the "Option for OTT Preference Shares") to one of the OTT Investors to subscribe for up to a further 2,000,000 OTT Preference Shares at an exercise price of US$10.00 per option share, which may be exercised by such OTT Investor at any time within nine months after closing of the subscriptions by the OTT Investors. Closing occurred on September 25, 2017 and PCCW OTT issued a total of 11,000,000 OTT Preference Shares to the OTT Investors. As at December 31, 2017, the Option for OTT Preference Shares has not been exercised by the relevant OTT Investor. Details of the subscriptions for the OTT Preference Shares by the OTT Investors can be found in the announcement issued by the Company dated August 10, 2017 and note 35 to the consolidated financial statements.

On May 23, 2013, the PCPD Group entered into a supporting agreement (the "Supporting Agreement") with ACE Equity Holdings Limited (the "Supporter"), whereby the PCPD Group will settle part of the services received in the value of US$23 million by means of, among other things, issuing non-voting, non-contributory but dividend participating class B shares (the "Melati Class B Shares") representing not more than 6.388% of the share capital of PCPD's indirect wholly-owned subsidiary, Melati Holding Limited ("Melati"), to the Supporter. The PCPD Group also granted a put option to the Supporter to require the PCPD Group to purchase all the Melati Class B Shares after the expiry of 5 years from the date of issue of the shares based on then consolidated net asset value of Melati and its subsidiaries.

On May 23, 2013, the PCPD Group also entered into a subscription agreement and a loan purchase agreement (the "Investor Agreements") with an independent third party (the "Investor") pursuant to which the PCPD Group will allot to the Investor 9.99% shares (the "Rafflesia Shares") of Rafflesia Investment Limited ("Rafflesia") which is an indirect wholly-owned subsidiary of PCPD held by Melati and assign 9.99% of the shareholder's loan to Rafflesia (the "Rafflesia Loan") at a consideration to be determined at the time of the allotment based on the total investment costs incurred by the PCPD Group on the Indonesian development project plus finance charge. The PCPD Group also granted a put option to the Investor to require the PCPD Group, at any time on or after May 23, 2023, to purchase all the Rafflesia Shares and the Rafflesia Loan based on then consolidated net asset value of Rafflesia and its subsidiaries.

The Supporting Agreement and the Investor Agreements have not been terminated as at December 31, 2017 and details of which can be found in the joint announcement issued by the Company and PCPD dated May 23, 2013, the circular issued by PCPD dated June 25, 2013 and note 31(e) to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2017, the following persons (other than any directors or chief executives of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of shareholder	*Note(s)*	Number of Shares/underlying Shares held	Approximate percentage of the total number of Shares in issue
Interests			
PCRD		1,753,529,954	22.72%
PCGH	*1*	1,928,842,224	24.99%
Star Ocean Ultimate Limited	*2 and 3*	1,928,842,224	24.99%
The Ocean Trust	*2*	1,928,842,224	24.99%
The Starlite Trust	*2*	1,928,842,224	24.99%
OS Holdings Limited	*2*	1,928,842,224	24.99%
Ocean Star Management Limited	*2*	1,928,842,224	24.99%
The Ocean Unit Trust	*2*	1,928,842,224	24.99%
The Starlite Unit Trust	*2*	1,928,842,224	24.99%
Star Ocean Ultimate Holdings Limited	*3*	1,928,842,224	24.99%
Fung Jenny Wai Ling	*4*	1,928,842,224	24.99%
Huang Lester Garson	*4*	1,928,842,224	24.99%
中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#) ("Unicom")	*5*	1,424,935,885	18.46%

Notes:

1. These interests represented (i) PCGH's beneficial interests in 175,312,270 Shares; and (ii) PCGH's interests (through itself and its controlled corporations, being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 88.58% of the issued share capital of PCRD) in 1,753,529,954 Shares held by PCRD.

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

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

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

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

For identification only

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

As at December 31, 2017, the following person (not being a director or chief executive or substantial shareholder (as disclosed in the previous section headed "**Interests and Short Positions of Substantial Shareholders**") of the Company) had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name		Number of Shares/underlying Shares held	Approximate percentage of the total number of Shares in issue
Interests			
Ocean Star Investment Management Limited	*Note*	1,928,842,224	24.99%

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

Save as disclosed above in this section and the previous section headed "**Interests and Short Positions of Substantial Shareholders**", the Company has not been notified of any other persons (other than any directors or chief executives of the Company) who had an interest or a short position in the Shares, underlying Shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO as at December 31, 2017.

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 5 to the consolidated financial statements.

Save for the above, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any its subsidiaries was a party and in which a director of the Company 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

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2017, the interests of the directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of Director	Name of company	Nature of business	Nature of interests
Li Tzar Kai, Richard	CK Hutchison Holdings Limited ("CK Hutchison") and its subsidiaries	Ports and related services, retail, infrastructure, energy and telecommunications	*(Note)*
	CK Asset Holdings Limited ("CK Asset") and its subsidiaries	Property development and investment, hotel and serviced suite operation, property and project management, aircraft leasing, and investment in energy and infrastructure assets that are household equipment services related	*(Note)*
Lu Yimin	Unicom and its subsidiaries	Telecommunications business and other related businesses	President and Vice Chairman of Unicom
	China United Network Communications Limited ("Unicom A-Share") and its subsidiaries	Telecommunications business and other related businesses	Director and President of Unicom A-Share
	China Unicom (Hong Kong) Limited ("Unicom HK") and its subsidiaries	Telecommunications business and other related businesses	Executive Director and President of Unicom HK
Li Fushen	Unicom and its subsidiaries	Telecommunications business and other related businesses	Director, Vice President and Chief Accountant of Unicom
	Unicom A-Share and its subsidiaries	Telecommunications business and other related businesses	Director of Unicom A-Share
	Unicom HK and its subsidiaries	Telecommunications business and other related businesses	Executive Director and Chief Financial Officer of Unicom HK

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(CONTINUED)*

Name of Director	Name of company	Nature of business	Nature of interests
Shao Guanglu (appointed with effect from the conclusion of the annual general meeting held on March 17, 2017)	Unicom and its subsidiaries	Telecommunications business and other related businesses	Vice President of Unicom
	Unicom A-Share and its subsidiaries	Telecommunications business and other related businesses	Director of Unicom A-Share
	Unicom HK and its subsidiaries	Telecommunications business and other related businesses	Executive Director and Senior Vice President of Unicom HK
	China Communications Services Corporation Limited ("CCSCL")	Network construction, outsourcing service, content applications and other services	Non-Executive Director of CCSCL (appointed with effect from June 23, 2017)
Zhang Junan (resigned with effect from March 10, 2017)	CCSCL	Network construction, outsourcing service, content applications and other services	Non-Executive Director of CCSCL (resigned with effect from March 10, 2017)

Note:
Li Tzar Kai, Richard has a personal interest in 75,240 shares in each of CK Hutchison and CK Asset, 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 and CK Asset. Certain businesses of CK Hutchison and CK Asset may compete with certain aspects of the businesses of the Group during the year.

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

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

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

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

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

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

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

PERMITTED INDEMNITY

According to the articles of association of the Company and subject to the provisions of the Hong Kong Companies Ordinance, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities to the fullest extent permitted by the Hong Kong Companies Ordinance which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance cover for the directors and officers of the Company and its subsidiaries.

DONATIONS

During the year, the Group made donations for charitable and other purposes of approximately HK$377,000 (2016: HK$3.69 million).

SUBSEQUENT EVENT

Details of the significant subsequent event are set out in note 43 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2017, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) of the Company and details of which are set out below in accordance with the Listing Rules.

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

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

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

   It is considered that the entering into of the Unicom Transactions is consistent with the commercial objectives of the Group and falls within the core business of the Group. It is anticipated that the entering into of the Unicom Transactions will further strengthen the Group’s position as a provider of the information technology services in the People’s Republic of China (the “PRC”).

   As stated in the Company’s announcement dated December 14, 2017, the Company set the annual caps for each of the following categories of the Unicom Transactions for the three financial years ending December 31, 2020 based on the nature of transactions from time to time entered into with the Unicom Group:

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

   The provision of data services by the Group to the Unicom Group refers to the provision of dedicated networks and network facilities, in the form of private leased lines, Internet Protocol platforms and/or data center services, for mainly data and voice communication, both locally and internationally.

   The charges for these data services may include a one-off charge per circuit and a monthly rental charge. The monthly rental charge may comprise the fixed recurring charge and the variable charge which is determined based on the volume of data usage by the Unicom Group.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

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

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

The provision of data services by the Unicom Group to the Group refers to the provision of dedicated networks and network facilities, in the form of private leased lines, Internet Protocol platforms and/or data center services, by the Unicom Group to the Group. The dedicated networks and network facilities are mainly used for data and voice communication, both locally and internationally. The bases of calculation of the payments to be made under the agreements are:

(a) Payments determined by reference to prices specified in guidance issued by the PRC Government, or in the absence of the PRC Government guidance prices, by reference to the market price of the same or similar data services;

(b) Agreed unit prices, determined by reference to comparable market prices, the committed contract duration and/or the committed volumes. In this regard, customers committing to a longer contract period or greater volume may enjoy a lower price; and/or

(c) Agreed pricing for individual services on a case by case basis, by reference to current market offers and comparable market prices for similar services provided on substantially the same terms and conditions.

Each of the bases of calculation described in (a), (b) and (c) above is comparable to those obtained from independent third parties.

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

The provision of systems integration services by the Group to the Unicom Group refers to the provision of services and/or hardware and/or software required to set up a computer system, network system or information technology infrastructure according to the user's requirements. Such systems integration services provided under the agreements include system design, project management, system implementation, managed services, consultancy, hardware, hosting, software development, testing and maintenance. Many of such systems integration services agreements were entered into following a competitive tender process initiated by the Unicom Group and, accordingly, were entered into on terms and conditions specified by the relevant member of the Unicom Group as part of the tender procedures. The remaining contracts were entered into on an individual basis through direct negotiations with the Unicom Group.

The values of respective systems integration projects are determined by the number of man-hour involved and the unit price per man-hour being charged.

As a general principle, the prices and terms of the agreements with the Unicom Group shall be determined on a commercial arm's length basis, and on terms no less favourable to the Group than terms available to or from independent third parties. The duration or term of each Unicom Transaction will not exceed three years, other than those capacity purchase and sale contracts relating to the grant of indefeasible rights to use bandwidth capacity within the economic life of the bandwidth capacity (the "IRU Contracts") available on both groups' networks to and/or from the Unicom Group or contracts of a similar nature.

The Group may, from time to time, enter into the IRU Contracts which are categorized under data services (as mentioned above) and are part of the normal commercial activities of the Group. As disclosed in the Company's announcement dated December 14, 2017, Investec Capital Asia Limited was appointed as the Company's independent financial adviser in accordance with the Listing Rules to advise on the duration of the IRU Contracts to be entered into by the Group and the Unicom Group and was of the opinion that (i) the duration of the IRU Contracts being longer than three years and for up to 15 years is essential to safeguard the interests of the Company and its shareholders; and (ii) it is a normal business practice for contracts of this type to be of such duration. Waivers have been sought from and granted by the Stock Exchange from strict compliance with Listing Rules requirements to have written agreements for the Unicom Transactions and an independent financial adviser opinion each time in relation to the execution of IRU Contract with the Unicom Group with a duration exceeding three years. Such waivers apply until December 31, 2020.

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

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

Category	Approximate aggregate values for the financial year ended December 31, 2017 HK$'000	Annual caps for the Unicom Group for the financial year ended December 31, 2017 HK$'000
(1) Provision of data services by the Group to the Unicom Group	136,180	600,000
(2) Provision of data services by the Unicom Group to the Group	121,657	700,000
(3) Provision of systems integration services by the Group to the Unicom Group	45,101	500,000

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

Pursuant to the Agreement, CNC GD leases to PCCW GZ an area for use as a service centre and provides PCCW GZ with facility and management services in respect of certain area in CNC Science Town Telecommunications Hub Building situated in the Guangzhou Science Town, Guangdong Province, the PRC (the "Lease and Facility and Management Services"). Access Capital Limited (now known as Investec Capital Asia Limited), an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules, was of the view that the transactions under the Agreement may enhance and safeguard the business and performance of the Group, and the interests of the Company and its shareholders as a whole, and given the nature of the lease and the services to be provided by CNC GD under the Agreement and any supplemental agreement when it is entered into, it is a normal business practice for the Agreement and the supplemental agreement in relation to the optional extended areas (if and when it is entered into when the area extension option is exercised by PCCW GZ pursuant to the Agreement), if any, to have a duration of 15 years, with an option to renew for another five years. The approximate rental and service fees charged by CNC GD for the year ended December 31, 2017 was HK$19,493,659 which did not exceed the annual cap for the tenth year of the 15-year term of HK$37,820,000.

The Unicom Transactions and the Lease and Facility and Management Services are collectively referred to as the "CU Transactions". The Company has complied with the applicable requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions during the year 2017.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the CU Transactions entered into by the Group for the year ended December 31, 2017 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 CU Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the external auditor's letter has been provided by the Company to the Stock Exchange.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CU Transactions for the year ended December 31, 2017 were entered into:

(i) in the ordinary and usual course of business of the 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 shareholders of the Company 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 5 to the consolidated 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.

PUBLIC FLOAT

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

AUDITOR

The consolidated financial statements for the financial year ended December 31, 2017 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Bernadette M. Lomas
Group General Counsel and Company Secretary
Hong Kong, February 7, 2018

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of PCCW Limited (the "Company") and its subsidiaries (the "Group") (the "Group financial statements") set out on pages 92 to 214, which comprise:

- the consolidated statement of financial position as at December 31, 2017;
- 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 Group financial statements, which include a summary of principal accounting policies.

Our opinion

In our opinion, the Group financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its 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 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 Group 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 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.

Key Audit Matters

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

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

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

- Revenue recognition
- Income taxes
- Investment properties
- Properties held for/under development
- Impairment tests for cash generating units ("CGUs") containing goodwill
- Gain on disposal of subsidiaries

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *Refer to notes 6 and 7 to the Group financial statements.*	
The Group recognized revenue of HK$37,050 million for the year ended December 31, 2017, including external revenue from HKT Limited ("HKT"), the Media Business and the Solutions Business of HK$32,030 million, HK$2,183 million and HK$2,645 million, respectively. When customers purchase telecommunications equipment together with a fixed period of telecommunications service, the Group uses the residual value method to determine the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration. Significant effort was spent auditing the revenue recognized by HKT and the Media Business due to the large volume of transactions and complexity of the systems used and the use of management's estimates to determine the fair value of the undelivered element to allocate revenue from multiple-element arrangements. The Solutions Business recognized revenue according to the percentage of completion of the related contracts. The measurement of the revenue amount generated in each period, including estimates of the contract costs incurred to date and the total estimated contract costs with reference to the progress of the relevant contracts, required individual consideration and management judgement.	Our procedures in relation to revenue recognition included: • Testing the IT environment in respect of HKT, Media Business and Solutions Business revenues; • Testing, on a sample basis, the accuracy of HKT, Media Business and Solutions Business revenue transactions from the general ledger to the underlying invoices, contractual documentation and evidence of cash receipts; • Assessing management's estimates used to determine the fair value of the undelivered element to allocate HKT revenue from multiple-element arrangements with reference to observable market data; • Testing the calculation and allocation of HKT revenue to the separable elements of multiple-element arrangements; and • Testing, on a sample basis, the amount and timing of Solutions Business revenue recognized having regard to contract costs incurred to date and the total estimated contract costs with reference to the progress of the relevant contracts. We found the revenue recorded to be supported by the available evidence.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Income taxes *Refer to notes 12 and 33 to the Group financial statements.* The Group operates across several jurisdictions and is 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. The Group has recognized deferred income tax assets of HK$1,357 million related to available tax losses as at December 31, 2017. In assessing the amount of deferred income tax assets to be recognized, the Group has considered the future taxable income and tax planning strategies.	Our procedures in relation to significant judgements on current income tax liabilities and deferred income tax assets included: • Discussing with management the basis of the current income tax liabilities and the estimated outcome of queries raised by relevant tax authorities; • Assessing the appropriateness of the current income tax provision at the year end, according to the tax rules in different jurisdictions; • Validating available tax losses to relevant financial statements and tax assessments; and • Assessing the reasonableness of the deferred income tax assets and the projected future taxable income, based on our knowledge of the business and industry. We found the current income tax provisions and deferred income tax assets recognized to be supported by the available evidence.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Investment properties *Refer to note 16 to the Group financial statements.* The Group's investment properties carried at HK$3,744 million as at December 31, 2017 related to the completed investment property in Indonesia. Management has engaged an independent professional valuer to determine the fair value of the investment property. The fair value was derived using the income capitalization method. The valuation was inherently subjective due to the significant estimates used which included the estimated market rent and capitalization rate. Significant changes in these estimates could result in material changes to the valuation of the property.	Our procedures in relation to management's valuation of the investment property include: • Assessing the competence, capability and objectivity of the independent professional valuer; • Discussing the valuation methodology and key assumptions with the valuer; • Involving our internal valuation specialists to compare the estimated market rent in the valuation to our independently formed market expectations, and to compare the capitalization rate to a range of expected yields, determined with reference to published market yields; and • Checking, on a sample basis, the accuracy and reasonableness of information, such as the rental income and lease period, used by the valuer, to the underlying lease agreements. We found the valuation of the investment property to be supported by the available evidence.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Properties held for/under development *Refer to note 18 to the Group financial statements.* The carrying values of properties held for development and properties under development were HK$598 million and HK590 million respectively as at December 31, 2017. For the properties under development, management determined the net realizable value of the properties using the discounted cash flow forecast, which involved significant estimates and assumptions such as selling prices, construction costs and discount rate. For the properties held for development, management determined the net realizable value of the properties by the direct comparison approach, which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in nature, locality and condition of the properties. Based on their determination of these net realizable values, management concluded that the carrying values of the properties under development and properties held for development were appropriate.	 Our procedures in relation to management's assessment of the carrying value of properties under development and properties held for development included: • Assessing the appropriateness of the methodologies used by management for the assessments of the net realizable value of properties under development and properties held for development; • For the properties under development, comparing the estimated selling prices, construction costs and discount rate used in the assessment to our independently formed market expectation and country-specific market and industry data. We also performed sensitivity analysis on the key assumptions used in the assessment; and • For the properties held for development, comparing management's estimates of selling prices for similar properties to market data. We also considered whether the adjusting factors used in management's assessment fell within a reasonable range with reference to our property industry knowledge in the country which the properties are located. We also performed sensitivity analysis on the key assumptions used in the assessment. We found the carrying values of the properties held for development and properties under development to be supported by the available evidence.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment tests for CGUs containing goodwill *Refer to notes 15, 19 and 20 to the Group financial statements.*	
As at December 31, 2017, the Group has property, plant and equipment of HK$21,681 million, goodwill of HK$18,128 million and intangible assets of HK$12,726 million. 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 CGUs and to determine the key assumptions, including revenue growth rates, EBITDA growth rates, terminal growth rates and discount rates, used in the value-in-use calculations. Management has concluded that there is no impairment in respect of the property, plant and equipment, goodwill and intangible assets.	Our procedures in relation to management's impairment tests for the CGUs containing goodwill included: • Assessing management's identification of CGUs based on the Group's accounting policies and our understanding of the Group's business; • Assessing the value-in-use calculation methodology adopted by management; • Comparing the data in the cash flow projections to the historic performance and considering the reasonableness of the cash flow projections based on the key assumptions; • Assessing the reasonableness of the key assumptions, including revenue growth rates, EBITDA growth rates, terminal growth rates and discount rates, based on our knowledge of the business and industry; and • Performing sensitivity analyses on the key assumptions to which the valuation models are the most sensitive. We found management's conclusion that there was no impairment in respect of the property, plant and equipment, goodwill and intangible assets to be supported by the available evidence.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Gain on disposal of subsidiaries *Refer to note 25(h) to the Group financial statements.* The Group has recognized a gain of HK$1,236 million related to the disposal of the subsidiaries which held the Group's investment in wireless broadband business in the United Kingdom. Management has calculated the gain based on the difference between the fair value of the consideration received, net of transaction costs, and the net assets of the business on the date of the sale. In determining the fair value of the consideration received management has not recognized the fair value of two credit vouchers received due to the uncertainty of potential market condition and the range of potential value being too wide for an amount to be measured reliably.	Our procedures in relation to the gain on disposal included: • Reviewing the share purchase agreement; • Vouching the cash consideration received; • Validating, on a sample basis, the transaction costs to supporting documentation; • Reviewing the terms of the credit vouchers received as consideration to supporting agreements; • Discussing with management to assess the reasonableness of management's assessment that the range of potential values of the credit vouchers is too wide for the fair values to be measured reliably; and • Testing the mathematical accuracy of the calculation of the gain on disposal. We found the gain on disposal recognized to be supported by the available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all the information included in the PCCW Limited 2017 annual report other than the Group financial statements and our auditor's report thereon ("Other Information").

Our opinion on the Group 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 Group financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Group 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.

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

The directors of the Company are responsible for the preparation of the Group 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 the Group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group financial statements, the directors are responsible for assessing the 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 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 financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the Group 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 Group 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 Group 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 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 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 Group 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 to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Group financial statements, including the disclosures, and whether the Group 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 to express an opinion on the Group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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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 Group 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, February 7, 2018

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CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2017

In HK$ million (except for earnings per share)	Note	2016	**2017**
Revenue	6 & 7	38,384	**37,050**
Cost of sales		(17,743)	**(16,857)**
General and administrative expenses		(15,114)	**(14,322)**
Other gains, net	8	32	**1,201**
Interest income		52	**134**
Finance costs	10	(1,429)	**(1,526)**
Share of results of associates		66	**83**
Share of results of joint ventures		(21)	**(29)**
Profit before income tax	7 & 9	4,227	**5,734**
Income tax	12	(395)	**(1,134)**
Profit for the year		3,832	**4,600**
Attributable to:			
Equity holders of the Company		2,051	**2,246**
Non-controlling interests		1,781	**2,354**
Profit for the year		3,832	**4,600**
Earnings per share	14		
Basic		26.79 cents	**29.15 cents**
Diluted		26.76 cents	**29.12 cents**

The notes on pages 100 to 214 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2017

In HK$ million	2016	**2017**
Profit for the year	3,832	**4,600**
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to consolidated income statement:		
Remeasurements of defined benefit retirement schemes obligations	(26)	**38**
	(26)	**38**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
– exchange differences on translating foreign operations	(165)	**323**
– reclassification of currency translation reserve on disposal of subsidiaries	–	**172**
Available-for-sale financial assets:		
– changes in fair value	(7)	**106**
– transfer to consolidated income statement on impairment/(disposal)	14	**(9)**
Cash flow hedges:		
– effective portion of changes in fair value	787	**(330)**
– transfer from equity to consolidated income statement	47	**(338)**
	676	**(76)**
Other comprehensive income/(loss) for the year	650	**(38)**
Total comprehensive income for the year	4,482	**4,562**
Attributable to:		
Equity holders of the Company	2,434	**2,384**
Non-controlling interests	2,048	**2,178**
Total comprehensive income for the year	4,482	**4,562**

The notes on pages 100 to 214 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

In HK$ million	Note	2016 Attributable to equity holders of the Company	Non-controlling interests	Total equity
At January 1, 2016		11,024	2,318	13,342
Total comprehensive income for the year				
Profit for the year		2,051	1,781	3,832
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to consolidated income statement:				
Remeasurements of defined benefit retirement schemes obligations		(26)	–	(26)
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		(135)	(30)	(165)
Available-for-sale financial assets:				
– changes in fair value		(6)	(1)	(7)
– transfer to consolidated income statement on impairment		(4)	18	14
Cash flow hedges:				
– effective portion of changes in fair value		525	262	787
– transfer from equity to consolidated income statement		29	18	47
Other comprehensive income		383	267	650
Total comprehensive income for the year		2,434	2,048	4,482
Transactions with equity holders				
Purchases of shares of PCCW Limited ("PCCW Shares") under share award scheme		(3)	–	(3)
Purchases of share stapled units of HKT Trust and HKT Limited ("Share Stapled Units") under share award schemes		(3)	–	(3)
Employee share-based compensation		68	12	80
Vesting of PCCW Shares and Share Stapled Units under share award schemes		(12)	12	–
Distribution for Share Stapled Units granted under share award schemes		(3)	1	(2)
PCCW Shares issued in lieu of cash dividends	29	449	–	449
Dividend paid in respect of previous year	13 & 32	(1,299)	–	(1,299)
Dividend declared and paid in respect of the current year	13 & 32	(629)	–	(629)
Distribution/Dividend declared and paid to non-controlling shareholders of subsidiaries		–	(1,587)	(1,587)
Total contributions by and distributions to equity holders		(1,432)	(1,562)	(2,994)
Change in ownership interests in subsidiaries that do not result in a loss of control		–	(1)	(1)
Settlement of balance with a non-controlling shareholder of a subsidiary		–	(53)	(53)
Total changes in ownership interests in subsidiaries that do not result in a loss of control		–	(54)	(54)
Total transactions with equity holders		(1,432)	(1,616)	(3,048)
At December 31, 2016		12,026	2,750	14,776

In HK$ million	Note	2017 Attributable to equity holders of the Company	Non-controlling interests	Total equity
At January 1, 2017		**12,026**	**2,750**	**14,776**
Total comprehensive income for the year				
Profit for the year		**2,246**	**2,354**	**4,600**
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to consolidated income statement:				
Remeasurements of defined benefit retirement schemes obligations		**38**	**–**	**38**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
– exchange differences on translating foreign operations		**234**	**89**	**323**
– reclassification of currency translation reserve on disposal of subsidiaries	25(h)	**172**	**–**	**172**
Available-for-sale financial assets:				
– changes in fair value		**106**	**–**	**106**
– transfer to consolidated income statement on disposal		**(9)**	**–**	**(9)**
Cash flow hedges:				
– effective portion of changes in fair value		**(222)**	**(108)**	**(330)**
– transfer from equity to consolidated income statement		**(181)**	**(157)**	**(338)**
Other comprehensive income/(loss)		**138**	**(176)**	**(38)**
Total comprehensive income for the year		**2,384**	**2,178**	**4,562**
Transactions with equity holders				
Purchases of PCCW Shares under share award scheme		**(16)**	**–**	**(16)**
Purchases of Share Stapled Units under share award schemes		**(10)**	**(4)**	**(14)**
Employee share-based compensation		**67**	**11**	**78**
Vesting of PCCW Shares and Share Stapled Units under share award schemes		**(7)**	**7**	**–**
Distribution for Share Stapled Units granted under share award schemes		**(3)**	**1**	**(2)**
Dividend paid in respect of previous year	13 & 32	**(1,557)**	**–**	**(1,557)**
Dividend declared and paid in respect of the current year	13 & 32	**(662)**	**–**	**(662)**
Distribution/Dividend declared and paid to non-controlling shareholders of subsidiaries		**–**	**(2,321)**	**(2,321)**
Total contributions by and distributions to equity holders		**(2,188)**	**(2,306)**	**(4,494)**
Changes in ownership interests in subsidiaries that do not result in a loss of control	42	**7,719**	**642**	**8,361**
Total transactions with equity holders		**5,531**	**(1,664)**	**3,867**
At December 31, 2017		**19,941**	**3,264**	**23,205**

The notes on pages 100 to 214 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at December 31, 2017

In HK$ million	Note*	The Group 2016	The Group 2017	(Additional information) The Company 2016	(Additional information) The Company 2017
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	15	19,701	**21,681**	–	**–**
Investment properties	16	3,216	**3,744**	–	**–**
Interests in leasehold land	17	422	**404**	–	**–**
Properties held for/under development	18	924	**1,188**	–	**–**
Goodwill	19	18,095	**18,128**	–	**–**
Intangible assets	20	11,982	**12,726**	–	**–**
Interests in subsidiaries		–	**–**	17,072	**17,792**
Interests in associates	22	725	**719**	–	**–**
Interests in joint ventures	23	628	**592**	–	**–**
Available-for-sale financial assets	24	1,057	**2,021**	–	**–**
Derivative financial instruments	28	289	**225**	12	**2**
Deferred income tax assets	33(a)	1,134	**1,213**	–	**–**
Other non-current assets		897	**1,019**	–	**–**
		59,070	**63,660**	17,084	**17,794**
Current assets					
Amounts due from subsidiaries		–	**–**	21,281	**12,746**
Sales proceeds held in stakeholders' accounts	25(a)	510	**508**	–	**–**
Restricted cash	25(b)	139	**149**	–	**–**
Prepayments, deposits and other current assets	25(c)	9,019	**9,556**	19	**16**
Inventories	25(d)	943	**911**	–	**–**
Amounts due from related companies	5(c)	98	**86**	–	**–**
Derivative financial instruments	28	–	**1**	–	**1**
Other financial assets	25(i)	–	**79**	–	**–**
Trade receivables, net	25(e)	3,778	**3,664**	–	**–**
Tax recoverable		16	**19**	–	**–**
Short-term deposits		453	**1,629**	–	**160**
Cash and cash equivalents	36(c)	4,751	**11,638**	587	**4,364**
		19,707	**28,240**	21,887	**17,287**
Assets of disposal group classified as held for sale	25(h)	807	**–**	–	**–**
		20,514	**28,240**	21,887	**17,287**

In HK$ million	Note*	The Group 2016	The Group 2017	(Additional information) The Company 2016	(Additional information) The Company 2017
Current liabilities					
Short-term borrowings	25(f)	(457)	**(622)**	–	**–**
Trade payables	25(g)	(2,731)	**(2,088)**	–	**–**
Accruals and other payables		(6,844)	**(7,569)**	(11)	**(10)**
Amount payable to the Government under the Cyberport Project Agreement	27	(321)	**(321)**	–	**–**
Derivative financial instruments	28	–	**(15)**	–	**–**
Carrier licence fee liabilities	34	(173)	**(173)**	–	**–**
Amounts due to related companies	5(c)	(35)	**(1)**	–	**–**
Advances from customers		(2,160)	**(2,588)**	–	**–**
Current income tax liabilities		(1,327)	**(1,438)**	–	**–**
		(14,048)	**(14,815)**	(11)	**(10)**
Liabilities of disposal group classified as held for sale	25(h)	(36)	**–**	–	**–**
		(14,084)	**(14,815)**	(11)	**(10)**
Non-current liabilities					
Long-term borrowings	26	(45,131)	**(46,613)**	(3,978)	**–**
Amounts due to subsidiaries		–	**–**	(3,024)	**(3,100)**
Derivative financial instruments	28	(98)	**(282)**	(84)	**(104)**
Deferred income tax liabilities	33(a)	(2,916)	**(3,233)**	–	**–**
Deferred income		(1,071)	**(1,381)**	–	**–**
Defined benefit retirement schemes liability	30(a)	(154)	**(105)**	–	**–**
Carrier licence fee liabilities	34	(544)	**(455)**	–	**–**
Other long-term liabilities	35	(810)	**(1,811)**	–	**–**
		(50,724)	**(53,880)**	(7,086)	**(3,204)**
Net assets		14,776	**23,205**	31,874	**31,867**

In HK$ million	Note*	The Group 2016	The Group **2017**	(Additional information) The Company 2016	(Additional information) The Company **2017**
CAPITAL AND RESERVES					
Share capital	29	12,954	**12,954**	12,954	**12,954**
Reserves	32	(928)	**6,987**	18,920	**18,913**
Equity attributable to equity holders of the Company		12,026	**19,941**	31,874	**31,867**
Non-controlling interests		2,750	**3,264**	–	**–**
Total equity		14,776	**23,205**	31,874	**31,867**

The consolidated financial statements were approved and authorized for issue by the board of directors of the Company (the "Board") on February 7, 2018 and signed on behalf of the Board by

Srinivas Bangalore Gangaiah
Director

Hui Hon Hing, Susanna
Director

* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at December 31, 2017 and 2016 is presented only as additional information to these consolidated financial statements. The Company statement of financial position as at December 31, 2017 as presented in note 4 was approved and signed by the directors.

The notes on pages 100 to 214 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

In HK$ million	Note	2016	**2017**
NET CASH GENERATED FROM OPERATING ACTIVITIES	36(a)	9,953	**11,863**
INVESTING ACTIVITIES			
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	25(h)	–	**2,388**
Purchases of property, plant and equipment		(3,184)	**(3,357)**
Proceeds from disposals of property, plant and equipment		8	**4**
Payment for investment properties		(966)	**(431)**
Additions of intangible assets		(4,975)	**(6,075)**
Settlement of considerations in respect of business combinations in prior years		(13)	**(21)**
Investments in joint ventures		(160)	**–**
Investment in an associate		(69)	**–**
Loan to associates		(35)	**(19)**
Loans to joint ventures		(110)	**(130)**
Loan from a joint venture		31	**–**
Repayment of loan from an associate		17	**–**
Repayment of loan from a joint venture		–	**39**
Purchases of available-for-sale financial assets		(378)	**(975)**
Proceeds from disposal of available-for-sale financial assets		221	**164**
Purchases of other financial assets		–	**(78)**
Purchase of a foreign currency option		–	**(8)**
Dividends received from an associate		5	**6**
Dividends received from available-for-sale financial assets		–	**38**
Increase in short-term deposits with maturity more than three months		(452)	**(1,176)**
NET CASH USED IN INVESTING ACTIVITIES		(10,060)	**(9,631)**
FINANCING ACTIVITIES			
New borrowings raised, net	36(b)	18,991	**10,312**
Finance costs paid	36(b)	(1,025)	**(1,163)**
Repayments of borrowings	36(b)	(17,466)	**(9,158)**
Proceeds from issuance of preference shares of a subsidiary	35 & 36(b)	–	**859**
Proceeds from placing of Share Stapled Units, net		–	**8,361**
Dividends paid to shareholders of the Company		(1,477)	**(2,214)**
Distribution/Dividends paid to non-controlling shareholders of subsidiaries		(1,587)	**(2,320)**
Consideration paid to acquire non-controlling interests of a subsidiary		(1)	**–**
Settlement of balance with a non-controlling shareholder of a subsidiary		(53)	**–**
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(2,618)	**4,677**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(2,725)	**6,909**
Exchange differences		(21)	**(28)**
CASH AND CASH EQUIVALENTS			
Beginning of year		7,503	**4,751**
		4,757	**11,632**
(Less)/Add: cash and cash equivalents of disposal group classified as held for sale at end/beginning of the year	25(h)	(6)	**6**
End of year	36(c)	4,751	**11,638**

The notes on pages 100 to 214 form part of these consolidated financial statements.

1 GENERAL INFORMATION

PCCW Limited ("PCCW" or the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") and its securities have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 18, 1994. The address of its registered office is 41st Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The principal activities of the Company and its subsidiaries (together the "Group") are the provision of 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; the provision of interactive pay-TV services, Internet portal digital media entertainment platform in Hong Kong and other parts of the world; investments in, and development of, systems integration, network engineering, and technology-related businesses; and development and management of premium-grade property and infrastructure projects as well as premium-grade property investments. Through HK Television Entertainment Company Limited, PCCW also operates a domestic free television service in Hong Kong.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These 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 requirements of the Hong Kong Companies Ordinance (Cap. 622). A summary of the principal accounting policies adopted by the Group is set out below.

b. Basis of preparation of the financial statements

The following amended Hong Kong Financial Reporting Standards are mandatory for the first time for the financial year beginning January 1, 2017, but had no material effect on the Group's reported results and financial position for the current and prior accounting periods.

- HKAS 7 (Amendment), Statement of Cash Flows.
- HKAS 12 (Amendment), Income Taxes.
- Annual Improvements to HKFRSs 2014-2016 Cycle published in March 2017 by HKICPA.

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see note 36(b).

The Group has not early adopted any new and amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period, details of which are set out in note 44.

The consolidated financial statements for the year ended December 31, 2017 comprise the financial statements of the Group, and the Group's interests in associates and joint ventures.

The consolidated statements of financial position for the years ended December 31, 2017 and 2016 include additional information about the Company statement of financial position. The Company statement of financial position as at December 31, 2017 presented in note 4, which was prepared in accordance with the requirements of Part 1 "Accounting Disclosures" of Schedule 4 to the Hong Kong Companies Ordinance (Cap. 622), was approved and signed by the directors.

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

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

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

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

– financial assets at fair value through profit or loss (see note 2(l)(i));

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

– derivative financial instruments (see note 2(n)); and

– defined benefit retirement schemes liability (see note 2(z)(ii)).

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 consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

c. Subsidiaries and non-controlling interests

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

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

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by Hong Kong Financial Reporting Standards.

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 2(j)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results.

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 remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

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

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

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

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

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

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

d. Associates

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

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

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

d. Associates *(continued)*

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

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

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

e. Joint arrangements

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

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

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

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

The Group recognizes the following in relation to its interest in a joint operation:

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

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

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

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

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

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Hong Kong Financial Reporting Standards applicable to the particular assets, liabilities, revenues and expenses.

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

f. 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 2(m)(ii)):

– buildings held for own use which are situated on leasehold/freehold land, where the fair value of the building could be measured separately from the fair value of the leasehold/freehold land at the inception of the lease (see note 2(h)); and

– other items of plant and equipment.

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

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

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

Land and buildings	Over the shorter of the unexpired term of land lease and the estimated useful life
Exchange equipment	5 to 20 years
Transmission plant	5 to 36 years
Other plant and equipment	Over the shorter of 1 to 20 years and the term of lease

The assets' useful lives and residual values, if any, are reviewed, and adjusted if appropriate, at the end of each reporting period.

g. Investment properties

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

Land held under operating leases is classified and accounted for as an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment properties are initially measured at their cost, including directly attributable construction costs, borrowing costs and other related transaction costs. After initial recognition, investment properties are stated in the consolidated statement of financial position at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee and are prepared or reviewed periodically by independent external valuers. The fair values of investment properties reflect, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair values also reflect, on a similar basis, any cash outflows that could be expected in respect of the properties. Changes in fair value arising on the revaluation of investment properties are recognized in the consolidated income statement.

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

g. Investment properties *(continued)*

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

h. Leased assets

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

i. Classification of assets leased to the Group

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

ii. Assets leased out under operating leases

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

iii. Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over 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 except where the property is classified as an investment property (see note 2(g)) or is held for development (see note 2(i)).

i. Properties held for/under development

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

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

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

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

j. Goodwill

Goodwill represents the excess of the cost of 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 Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

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

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

k. Intangible assets (other than goodwill)

i. Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalized if it is probable that future economic benefits will flow from the customers to the Group and such costs can be measured reliably. Capitalized customer acquisition costs, including subsidized handsets and gifts, 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 are 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 is written off immediately in the consolidated income statement.

ii. Carrier licences

The carrier licences to establish and maintain the telecommunications network and to provide telecommunications 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 as an intangible asset together with the related obligations. Where the Group has the right to return a licence and expects to do so, the asset and the related obligation recorded reflect the expected period that the licence will be held. Amortization is provided on a straight-line basis over the estimated useful life of the licence, commencing from the date of launch of the relevant telecommunications services.

The difference between the discounted value and the total 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. Capitalized programme costs

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

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

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

iv. Software

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

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

- it is technically feasible to complete the software so that it will be available for use;
- adequate technical, financial and other resources are available to complete the development and to use the software;
- the costs attributable to acquisition, development and enhancement of the software can be reliably measured; and
- the Group has power to obtain future economic benefits flowing from the underlying resource.

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

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 5 to 15 years.

v. Other intangible assets

Other intangible assets that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 2(m)(ii)). Expenditures on internally generated goodwill and brands are recognized as expenses in the period in which they are incurred.

Amortization of intangible assets with finite useful lives is charged to the 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 12 years
Wireless broadband licence	Over the term of licence

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

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

l. Investments in debt and equity securities

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

Investments in debt and equity securities are initially recognized at fair value plus transaction costs, except as indicated otherwise below. The fair value of quoted investments is based on current bid price. For unlisted securities or financial assets without an active market, the Group establishes 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 result in a reasonable estimate of the fair value, the investment is stated in the consolidated statement of financial position at cost less impairment losses (see note 2(m)(i)). The investments are subsequently accounted for based on their classification as set out below:

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period. Any attributable transaction costs are recognized in the consolidated income statement as incurred. At the end of each reporting period, the fair value is remeasured, 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 2(w)(v) and 2(w)(vii) respectively.

ii. Held-to-maturity investments

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

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

iii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Group intends 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 remeasured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 2(m)(i)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses, which are recognized directly in the consolidated income statement. Dividend income from these investments is recognized in the consolidated income statement in accordance with the policy set out in note 2(w)(vii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the consolidated income statement in accordance with the policy set out in note 2(w)(v). When the investments are derecognized or impaired (see note 2(m)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the consolidated income statement.

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

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

m. Impairment of assets

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

Investments in debt and equity securities (other than interests in subsidiaries, associates and joint arrangements: see note 2(m)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

– in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost.

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.

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

m. Impairment of assets *(continued)*

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

– For available-for-sale financial assets, when there is an impairment, the cumulative loss, if any, that had been recognized in other comprehensive income is reclassified from equity to the 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 the 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 in respect of debt instruments classified as available-for-sale financial assets are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in the consolidated income statement.

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

ii. Impairment of other assets

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

– property, plant and equipment;

– interests in leasehold land;

– properties held for/under development;

– intangible assets;

– interests in associates and joint ventures; and

– goodwill.

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

m. Impairment of assets *(continued)*

ii. Impairment of other assets *(continued)*

If any such indication exists, the asset's recoverable amount is estimated. Impairment tests are performed for CGUs containing goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives 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 costs of disposal and value in use. Fair value less costs of disposal 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 of disposal, 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 Group is required to prepare an interim financial report in compliance with HKAS 34 'Interim Financial Reporting', in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and 2(m)(ii)).

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

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

n. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured 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 2(o)).

The full fair value of a hedging derivative is classified as a 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.

o. Hedging

i. Fair value hedges

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”, together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

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

ii. Cash flow hedges

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 paragraphs, 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 Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealized gain or loss recognized in equity is recognized immediately in the consolidated income statement.

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

p. Inventories

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

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

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

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

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

q. Construction contracts

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

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

r. Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(m)(i)).

s. Cash and cash equivalents

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

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

t. Trade and other payables

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

u. Borrowings

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

v. Provisions and contingent liabilities

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

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

w. Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the 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 Group's network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the respective period.

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 arrangements, customers can purchase telecommunications equipment together with a fixed period of telecommunications service. When such multiple-element arrangements exist, the Group uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration. The revenue relating to the service element, which represents the fair value of the servicing arrangement is recognized over the service period.

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

w. Revenue recognition *(continued)*

ii. Sales of goods

Revenue from sale of goods is recognized when goods are delivered to customers which generally coincides with the time when the customer has accepted the goods and the related risks and rewards of ownership have been transferred to the customers. Revenue is recorded after the 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 instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

iv. Contract revenue

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

x. 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 completed.

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.

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

y. Income tax

i. Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Current income tax and movements in deferred income tax assets and liabilities are recognized in the 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 years.

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

- in the case of current income tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

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

z. Employee benefits

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

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

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

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

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

iii. Share-based payments

The Company operates a share option scheme where employees (and including directors) are granted options to acquire PCCW Shares at specified exercise prices. The fair value of the employee services received in exchange for the grant of 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 capital account) or the share options expire (when it is released directly to retained profits or accumulated losses). When the share options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

The Company also grants PCCW Shares and Share Stapled Units to employees at nil consideration under its share award schemes, under which the awarded PCCW Shares and Share Stapled Units are either newly issued at issue price (the "Subscription Scheme") or are purchased from the open market (the "Purchase Scheme").

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

z. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

The cost of PCCW Shares purchased from the open market under the Purchase Scheme and the issue price of newly issued PCCW Shares under the Subscription Scheme is recognized in equity as treasury stock. The fair value of the employee services received in exchange for the grant of the PCCW Shares 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 PCCW Shares is measured by the quoted market price of the PCCW Shares at grant date and is charged to the consolidated income statement over the respective vesting period. During the vesting period, the number of awarded PCCW Shares that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the 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 PCCW Shares that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded PCCW Shares recognized as treasury stock is transferred to the employee share-based compensation reserve with the difference recognized in equity.

The cost of Share Stapled Units purchased from the open market under the Purchase Scheme and the issue price of newly issued Share Stapled Units under the Subscription Scheme is recognized in equity and non-controlling interests. 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 Share Stapled Units 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 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 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 is transferred to the employee share-based compensation reserve with the difference recognized in equity and non-controlling interests.

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 number of employees affected, or after individual employees have been advised of the specific terms.

aa. Share-based payment transactions with cash alternatives

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

bb. Translation of foreign currencies

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

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

bb. 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, such as financial assets at fair value through profit or loss, 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 consolidated statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after January 1, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. Goodwill arising on consolidation of a foreign operation acquired before January 1, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, if any, are taken to other comprehensive income and accumulated separately in 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.

cc. Related parties

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

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

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

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

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

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

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

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

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

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

dd. Segment reporting

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

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses and segment performance include transactions between segments. Inter-segment pricing is based on similar terms to those available to external parties for similar services. These transactions are eliminated upon consolidation.

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

ee. Dividend distribution

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

ff. Non-current assets (or disposal group) held for sale

Non-current assets (or disposal group) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below) (or disposal group) are stated at the lower of carrying amount and fair value less costs of disposal. Deferred income tax assets and financial assets (other than investments in subsidiaries), which are classified as held for sale, are measured in accordance with the policies set out in note 2.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 19, 30(a) and 38 contain information about the assumptions and their risk factors relating to goodwill impairment, defined benefit retirement schemes liability and financial instruments. Management has also made judgements in applying the Group's accounting policies. These judgements and other key sources of estimation uncertainty are discussed below:

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

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

– property, plant and equipment;

– interests in leasehold land;

– properties held for/under development;

– intangible assets;

– interests in associates and joint ventures; and

– goodwill.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

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

If any such indication exists, the asset's recoverable amount is estimated. Impairment tests are performed for CGUs containing goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives annually whether or not there is any indication of impairment. Significant judgement is used to identify CGUs appropriately. 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 Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period. Such information is particularly significant as it relates to the Group's telecommunications services and infrastructure businesses in Hong Kong.

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

ii. Revenue recognition

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

Under certain telecommunications service arrangements, customers can purchase telecommunications equipment together with a fixed period of telecommunications service. When such multiple-element arrangements exist, the Group uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration. The revenue relating to the service element, which represents the fair value of the servicing arrangement is recognized over the service period. The Group is required to exercise considerable judgement in relation to estimating the fair value of the undelivered element.

Contract revenue is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the 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 cost incurred will be recoverable. The Group is required to exercise judgement in estimating the total contract costs to apply the percentage of completion method for revenue recognition.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

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 to be recognized, the Group considers future taxable income and ongoing prudent and appropriate tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

iv. Current income tax

The Group makes a provision for current income tax based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Group. Nevertheless, from time to time, there are 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 Group considers 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. Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers on a market value basis and (ii) other principal assumptions, including the current and expected capitalization rate, market price and market rent in view of the current usage and condition of the investment properties to determine the fair value of the investment properties. Had the Group used different capitalization rate, market prices, market rents or other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2017, the fair value of the investment properties was HK$3,744 million (2016: HK$3,216 million).

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

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

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such reviews take into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancements in technology. The Group extends or shortens the useful lives according to the results of the reviews.

4 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

In HK$ million	Note	2016	2017
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		17,072	**17,792**
Derivative financial instruments		12	**2**
		17,084	**17,794**
Current assets			
Amounts due from subsidiaries		21,281	**12,746**
Prepayments, deposits and other current assets		19	**16**
Derivative financial instruments		–	**1**
Short-term deposits		–	**160**
Cash and cash equivalents		587	**4,364**
		21,887	**17,287**
Current liabilities			
Accruals and other payables		(11)	**(10)**
		(11)	**(10)**
Non-current liabilities			
Long-term borrowings		(3,978)	**–**
Amounts due to subsidiaries		(3,024)	**(3,100)**
Derivative financial instruments		(84)	**(104)**
		(7,086)	**(3,204)**
Net assets		31,874	**31,867**
CAPITAL AND RESERVES			
Share capital		12,954	**12,954**
Reserves	32	18,920	**18,913**
Total equity		31,874	**31,867**

Approved and authorized for issue by the Board on February 7, 2018 and signed on behalf of the Board by

Srinivas Bangalore Gangaiah
Director

Hui Hon Hing, Susanna
Director

5 RELATED PARTY TRANSACTIONS

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

In HK$ million	Note	2016	**2017**
Telecommunications service fees, facility management service charges, interest income and other recharge costs received or receivable from joint ventures	a	66	**46**
System integration service fees, consultancy service charges and interest income received or receivable from associates	a	16	**17**
Telecommunications service fees, system integration service fees and data center hosting service fees received or receivable from a substantial shareholder	a	155	**129**
Telecommunications service fees, equipment purchase costs, outsourcing fees and rental charges paid or payable to joint ventures	a	321	**320**
Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder	a	117	**106**
Telecommunications service fees paid or payable to an associate	a	–	**12**
Key management compensation	b	88	**114**

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

b. Details of key management compensation

In HK$ million	2016	**2017**
Salaries and other short-term employee benefits	70	**93***
Share-based compensation	14	**17**
Post-employment benefits	4	**4**
	88	**114**

* Amount includes the 2016 bonus paid in 2017 as well as a one-off payment made in 2017 pursuant to a long-term incentive plan.

c. Amounts due from/(to) related companies

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

6 REVENUE

In HK$ million	2016	**2017**
Telecommunications and other service revenue	33,522	**32,775**
Amounts received and receivable in respect of goods sold	4,802	**4,203**
Amounts received and receivable from rental of investment properties	60	**72**
	38,384	**37,050**

7 SEGMENT INFORMATION

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

The CODM considers the business from the product perspective and assesses the performance of the following segments:

– HKT Limited ("HKT") is Hong Kong's premier telecommunications service provider. The principal activities of HKT and its subsidiaries are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, 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.

– Media Business includes interactive pay-TV services, Internet portal digital media entertainment platform and directories operations in Hong Kong, mainland China and other parts of the world. The Group also operates a domestic free television service in Hong Kong.

– Solutions Business offers Information and Communications Technologies services and solutions in Hong Kong and other parts of Greater China and Asia.

– Pacific Century Premium Developments Limited ("PCPD") covers the Group's development and management of premium-grade property and infrastructure projects as well as premium-grade property investments.

– Other Businesses primarily comprises corporate support functions, and the Group's wireless broadband business in the United Kingdom (until May 2017 when the Group completed the disposal of its entire interest in the wireless broadband business in the United Kingdom).

7 SEGMENT INFORMATION *(CONTINUED)*

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

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

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

In HK$ million	2016						
	HKT	Media Business	Solutions Business	Other Businesses	PCPD	Eliminations	Consolidated
REVENUE							
External revenue	33,163	2,362	2,630	57	172	–	38,384
Inter-segment revenue	684	1,281	1,192	3	2	(3,162)	–
Total revenue	33,847	3,643	3,822	60	174	(3,162)	38,384
RESULTS							
EBITDA	12,684	(5)	761	(712)	(280)	(222)	12,226
OTHER INFORMATION							
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	2,878	192	95	48	14	–	3,227

In HK$ million	**2017**						
	HKT	**Media Business**	**Solutions Business**	**Other Businesses**	**PCPD**	**Eliminations**	**Consolidated**
REVENUE							
External revenue	**32,030**	**2,183**	**2,645**	**30**	**162**	**–**	**37,050**
Inter-segment revenue	**1,228**	**1,467**	**1,357**	**–**	**2**	**(4,054)**	**–**
Total revenue	**33,258**	**3,650**	**4,002**	**30**	**164**	**(4,054)**	**37,050**
RESULTS							
EBITDA	**12,997**	**(111)**	**847**	**(652)**	**(275)**	**(195)**	**12,611**
OTHER INFORMATION							
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	**2,655**	**235**	**223**	**10**	**287**	**–**	**3,410**

7 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	2016	**2017**
Total segment EBITDA	12,226	**12,611**
Gain/(loss) on disposal of property, plant and equipment, net	3	**(12)**
Depreciation and amortization	(6,702)	**(6,728)**
Other gains, net	32	**1,201**
Interest income	52	**134**
Finance costs	(1,429)	**(1,526)**
Share of results of associates and joint ventures	45	**54**
Profit before income tax	4,227	**5,734**

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

In HK$ million	Revenue from external customers	
	2016	**2017**
Hong Kong (place of domicile)	32,272	**30,848**
Mainland China, Macau and Taiwan, China	1,284	**970**
Others	4,828	**5,232**
	38,384	**37,050**

As at December 31, 2017, the total non-current assets, other than financial instruments and deferred income tax assets, located in Hong Kong are HK$48,833 million (2016: HK$46,760 million), and the total of these non-current assets located in other countries are HK$11,231 million (2016: HK$9,673 million).

8 OTHER GAINS, NET

In HK$ million	2016	**2017**
Gain on disposal of subsidiaries *(note 25(h))*	–	**1,236**
Fair value gains on investment properties	2	**–**
Net gains on fair value hedging instruments	4	**–**
Fair value movement of derivative financial instruments	(60)	**1**
Provision for impairment of available-for-sale financial assets	(19)	**–**
Net realized gains on disposal of available-for-sale financial assets	106	**68**
Dividend income from available-for-sale financial assets	–	**38**
Provision for impairment of interests in associates	–	**(154)**
Reversal of provision for impairment of an interest in a joint venture	–	**5**
Others	(1)	**7**
	32	**1,201**

9 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	2016	**2017**
Retirement costs for directors	3	**3**
Retirement costs for other staff under defined contribution retirement scheme	376	**401**
Retirement costs for other staff under defined benefit retirement schemes	2	**2**
	381	**406**
Share-based compensation expenses	80	**78**
Salaries, bonuses and other benefits	5,262	**4,830**
	5,723	**5,314**
Less: staff costs included in cost of sales	(2,449)	**(2,732)**
Staff costs included in general and administrative expenses	3,274	**2,582**

b. Other items

In HK$ million	2016	**2017**
Crediting:		
Dividend income from listed investments	–	**38**
Gain on disposal of property, plant and equipment, net	3	**–**
Gross rental income	60	**72**
Less: Outgoings	(5)	**(5)**
Exchange gains, net	7	**–**
Less: Cash flow hedges: transferred from equity	(47)	**–**
Less: Fair value hedges: transferred to finance costs	(2)	**–**
Charging:		
Impairment loss for doubtful debts	337	**288**
Provision for inventory obsolescence	4	**16**
Depreciation of property, plant and equipment	1,774	**1,642**
Amortization of land lease premiums – interests in leasehold land	20	**18**
Amortization of intangible assets	4,908	**5,068**
Cost of inventories sold	4,698	**3,767**
Cost of sales, excluding inventories sold	13,045	**13,090**
Loss on disposal of property, plant and equipment, net	–	**12**
Exchange losses, net	–	**333**
Less: Cash flow hedges: transferred from equity	–	**(338)**
Less: Fair value hedges: transferred to finance costs	–	**17**
Remuneration to the Company's auditor		
– audit and audit-related services	32	**32**
– non-audit services	2	**3**
Remuneration to the other auditors		
– audit and audit-related services	6	**16**
– non-audit services	1	**4**
Operating lease rental	1,491	**1,663**

10 FINANCE COSTS

In HK$ million	2016	**2017**
Interest expense	1,347	**1,657**
Notional accretion on carrier licence fee liabilities	87	**51**
Other borrowing costs	43	**42**
Fair value hedges: changes in fair value *(note a)*	1	**(1)**
Fair value hedges: exchange difference transferred from exchange losses, net	2	**17**
Adjustment of borrowings attributable to foreign currency risk	(2)	**(17)**
Impact of re-designation of fair value hedges	16	**16**
Cash flow hedges: changes in fair value	(3)	**(51)**
	1,491	**1,714**
Interest capitalized in property, plant and equipment and investment properties *(note b)*	(62)	**(188)**
	1,429	**1,526**

a. Fair value hedges: changes in fair value represent fair value gains on derivative financial instruments on fair value hedges of HK$24 million (2016: losses of HK$9 million) and fair value adjustment of borrowings attributable to interest rate risk of HK$23 million (2016: HK$8 million).

b. The capitalization rate used to determine the amount of interest eligible for capitalization for the year ranged from 3.07% to 5.30% (2016: 3.08% to 4.68%).

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

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

In HK$ million	2016															
	Directors' fees		Salaries		Allowances		Benefits in kind[1]		Bonuses		Retirement schemes contributions		Share-based compensation[2]		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD
Executive directors																
Li Tzar Kai, Richard	–	–	–	–	–	–	0.04	–	–	–	–	–	–	–	0.04	–
Srinivas Bangalore Gangaiah	–	–	10.56	–	1.61	–	0.10	–	2.50[3]	–	1.09	–	0.56	–	16.42	–
Hui Hon Hing, Susanna	–	–	7.58	–	3.78	–	0.03	–	9.72[3]	–	0.91	–	11.76	–	33.78[4]	–
Lee Chi Hong, Robert	–	–	–	6.95	–	2.98	–	0.09	–	4.50[3]	–	1.04	–	–	–	15.56
Non-executive directors																
Sir David Ford	–	–	0.97	–	0.13	–	0.16	–	–	–	–	–	–	–	1.26	–
Lu Yimin	0.46[5]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.46	–
Li Fushen	0.46[6]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.46	–
Zhang Junan	0.23[7]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.23	–
Tse Sze Wing, Edmund	0.23	–	–	–	–	–	–	–	–	–	–	–	–	–	0.23	–
Wei Zhe, David	0.23	–	–	–	–	–	–	–	–	–	–	–	–	–	0.23	–
Independent non-executive directors																
Dr The Hon Sir David Li Kwok Po	0.23	–	–	–	–	–	–	–	–	–	–	–	–	–	0.23	–
Aman Mehta	0.92[8]	–	–	–	0.53	–	–	–	–	–	–	–	–	–	1.45	–
Frances Waikwun Wong	0.58[9]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.58	–
Bryce Wayne Lee	0.23	–	–	–	0.40	–	–	–	–	–	–	–	–	–	0.63	–
Lars Eric Nils Rodert	0.23	–	–	–	0.53	–	–	–	–	–	–	–	–	–	0.76	–
David Christopher Chance	0.35[10]	–	–	–	0.40	–	–	–	–	–	–	–	–	–	0.75	–
	4.15	–	19.11	6.95	7.38	2.98	0.33	0.09	12.22	4.50	2.00	1.04	12.32	–	57.51	15.56

Notes:

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

2 Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2016 for respective directors under the share award schemes.

3 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.

4 Represents the total emoluments receivable from both the Company and HKT for acting as the group chief financial officer of both entities.

5 Fees receivable as a non-executive director of both the Company and HKT in 2016 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

6 Fees receivable as a non-executive director of both the Company and HKT in 2016 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

7 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 Zhang Junan and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

8 Includes HK$115,000 fee as Chairman of Nomination Committee, HK$115,000 fee as Chairman of Audit Committee and HK$115,000 fee as Chairman of Remuneration Committee of the Company as well as fees of HK$230,000 and HK$115,000 for acting as an independent non-executive director of HKT and Chairman of its Nomination Committee respectively.

9 Includes fees of HK$230,000 and HK$115,000 for acting as an independent non-executive director of HKT and Chairperson of its Remuneration Committee respectively.

10 Includes HK$115,000 fee as independent non-executive Chairman of PCCW Media Limited, a wholly-owned subsidiary of the Company.

11 The share-based compensation vested to Mr Chan Ching Cheong, George, a past executive director who retired with effect from the end of July 13, 2014, during the year ended December 31, 2016 under the Company's share award scheme in respect of his services as a past director of the Company and its subsidiaries is HK$1.87 million (2015: HK$10.14 million).

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

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

In HK$ million	2017															
	Directors' fees		Salaries		Allowances		Benefits in kind[1]		Bonuses		Retirement schemes contributions		Share-based compensation[2]		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD and one-off payment[4])	PCPD
Executive directors																
Li Tzar Kai, Richard	-	-	-	-	-	-	0.03	-	-	-	-	-	-	-	0.03	-
Srinivas Bangalore Gangaiah	-	-	10.64	-	1.66	-	0.09	-	3.86[3]	-	1.10	-	1.88	-	19.23	-
Hui Hon Hing, Susanna	-	-	7.64	-	3.81	-	0.03	-	9.70[3]	-	0.92	-	12.28	-	34.38[4]	-
Lee Chi Hong, Robert	-	-	-	7.21	-	3.09	-	0.10	-	-	-	1.08	-	-	-	11.48
Non-executive directors																
Sir David Ford[5]	-	-	0.63	-	0.08	-	3.88	-	-	-	-	-	-	-	4.59	-
Lu Yimin	0.47[6]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.47	-
Li Fushen	0.47[7]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.47	-
Zhang Junan[8]	0.04[9]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.04	-
Tse Sze Wing, Edmund	0.24	-	-	-	-	-	-	-	-	-	-	-	-	-	0.24	-
Wei Zhe, David	0.24	-	-	-	-	-	-	-	-	-	-	-	-	-	0.24	-
Shao Guanglu[10]	0.19[11]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.19	-
Independent non-executive directors																
Dr The Hon Sir David Li Kwok Po	0.24	-	-	-	-	-	-	-	-	-	-	-	-	-	0.24	-
Aman Mehta	0.95[12]	-	-	-	0.53	-	-	-	-	-	-	-	-	-	1.48	-
Frances Waikwun Wong	0.59[13]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.59	-
Bryce Wayne Lee	0.24	-	-	-	0.40	-	-	-	-	-	-	-	-	-	0.64	-
Lars Eric Nils Rodert	0.24	-	-	-	0.53	-	-	-	-	-	-	-	-	-	0.77	-
David Christopher Chance	0.36[14]	-	-	-	0.53	-	-	-	-	-	-	-	-	-	0.89	-
David Lawrence Herzog[15]	0.05	-	-	-	0.13	-	-	-	-	-	-	-	-	-	0.18	-
	4.32	-	18.91	7.21	7.67	3.09	4.03	0.10	13.56	-	2.02	1.08	14.16	-	64.67	11.48

Notes:

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

2 Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2017 for respective directors under the share award schemes.

3 Bonus amounts shown above represent the 2016 bonus that were paid in 2017. It was determined by reference to the Group and the individual performance during the year ended December 31, 2016.

4 Apart from the above emolument representing the aggregate amount receivable from both the Company and HKT for acting as the group chief financial officer of both entities, Ms Hui Hon Hing, Susanna has also realized a one-off payment of HK$20 million from a long-term incentive plan in 2017. Including this one-off payment, her aggregate emolument was HK$54.38 million for 2017.

5 Ceased to be a non-executive director with effect from September 9, 2017.

6 Fees receivable as a non-executive director of both the Company and HKT in 2017 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

7 Fees receivable as a non-executive director of both the Company and HKT in 2017 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

8 Resigned as a non-executive director with effect from March 10, 2017.

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

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

Notes: *(continued)*

9 Fee receivable as a non-executive director in 2017 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zhang Junan and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

10 Appointed as a non-executive director with effect from the conclusion of the annual general meeting held on March 17, 2017.

11 Fee receivable as a non-executive director in 2017 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Shao Guanglu and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

12 Includes HK$118,450 fee as Chairman of Nomination Committee, HK$118,450 fee as Chairman of Audit Committee and HK$118,450 fee as Chairman of Remuneration Committee of the Company as well as fees of HK$236,900 and HK$118,450 for acting as an independent non-executive director of HKT and Chairman of its Nomination Committee respectively.

13 Includes fees of HK$236,900 and HK$118,450 for acting as an independent non-executive director of HKT and Chairperson of its Remuneration Committee respectively.

14 Includes HK$118,450 fee as independent non-executive Chairman of PCCW Media Limited, a wholly-owned subsidiary of the Company.

15 Appointed as an independent non-executive director with effect from October 9, 2017.

16 The share-based compensation vested to Mr Chan Ching Cheong, George, a past executive director who retired with effect from the end of July 13, 2014, during the year ended December 31, 2017 under the Company's share award scheme in respect of his services as a past director of the Company and its subsidiaries is HK$4.37 million (2016: HK$1.87 million).

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, 2017 (2016: nil).

c. Directors' retirement benefits

No retirement benefits were paid to or receivable by any director during the year ended December 31, 2017 by a defined contribution retirement scheme operated by the Group in respect of services as a director of the Company and its subsidiaries (2016: 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, 2017 (2016: nil).

d. Directors' termination benefits

No directors' emoluments, retirements benefits, payments or benefits in respect of the termination of directors' services were paid to or receivable by the directors during the year ended December 31, 2017 (2016: 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, 2017 (2016: nil).

f. Information about loans, quasi-loans and other dealings entered into by the Company or subsidiary undertakings 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 entities during the year ended December 31, 2017 (2016: 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, 2017 (2016: nil).

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

h. Individuals with highest emoluments

i. Of the five individuals with the highest emoluments, two (2016: three) are directors of the Company whose emoluments are disclosed in note 11(a). The emoluments in respect of the three (2016: two) non-director individuals are as follows:

In HK$ million	2016	**2017**
Salaries, share-based compensation, allowances and benefits in kind	36.14	**46.44**
Bonuses	24.71	**125.49**
Retirement scheme contributions	2.00	**2.21**
	62.85	**174.14**

ii. The emoluments of the three (2016: two) non-director individuals fell within the following emolument ranges:

	Number of individuals 2016	**2017**
HK$19,500,001 – HK$20,000,000	1	**–**
HK$22,500,001 – HK$23,000,000	–	**1**
HK$43,000,001 – HK$43,500,000	1	**–**
HK$73,500,001 – HK$74,000,000 *(note(i))*	–	**1**
HK$77,000,001 – HK$77,500,000 *(note(i))*	–	**1**
	2	**3**

(i) Includes a one-off payment realized from a long-term incentive plan in 2017.

12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	2016	**2017**
Hong Kong profits tax		
– provision for current year	676	**866**
– over provision in respect of prior years	(191)	**(32)**
Overseas tax		
– provision for current year	98	**81**
– under/(over) provision in respect of prior years	6	**(23)**
Movement of deferred income tax *(note 33(a))*	(194)	**242**
	395	**1,134**

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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.

12 INCOME TAX *(CONTINUED)*

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

In HK$ million	2016	**2017**
Profit before income tax	4,227	**5,734**
Notional tax on profit before income tax, calculated at the Hong Kong tax rate of 16.5% (2016: 16.5%)	697	**946**
Effect of different tax rates of subsidiaries operating overseas	(4)	**19**
Income not subject to tax	(35)	**(42)**
Expenses not deductible for tax purposes	173	**189**
Tax losses not recognized	278	**286**
Over provision in prior years, net	(185)	**(55)**
Utilization of previously unrecognized tax losses	(30)	**(52)**
Recognition of tax losses	(492)	**(323)**
Recognition of previously unrecognized temporary differences	–	**65**
Net income of associates and joint ventures not subject to tax	(7)	**(9)**
Effect on change of corporate tax rate	–	**110**
Income tax expense	395	**1,134**

The increase in the effective tax rate is mainly contributed by the increase in recognition of tax losses in 2016, and the one-off non-cash movement in deferred income tax assets in the year ended December 31, 2017 due to the enactment of the 2017 tax reform legislation in the United States.

13 DIVIDENDS

In HK$ million	2016	**2017**
Interim dividend declared and paid in respect of current year of 8.57 HK cents (2016: 8.16 HK cents) per ordinary share	629	**662**
Less: dividend for PCCW Shares held by share award schemes	(1)	**(1)**
	628	**661**
Final dividend declared in respect of previous financial year, approved and paid during the year of 20.17 HK cents (2016: 17.04 HK cents *(note b)*) per ordinary share	1,299	**1,557**
Less: dividend for PCCW Shares held by share award schemes	(1)	**(4)**
	1,298	**1,553**
	1,926	**2,214**
Final dividend proposed after the end of the reporting period of 21.18 HK cents (2016: 20.17 HK cents) per ordinary share	1,557	**1,635**

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

b. For details of shares issued and allotted in lieu of cash dividends for the year ended December 31, 2016, please refer to note 29(a).

14 EARNINGS PER SHARE

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

	2016	**2017**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	2,051	**2,246**
Number of shares		
Weighted average number of ordinary shares	7,670,021,895	**7,719,638,249**
Effect of PCCW Shares held under the Company's share award schemes	(13,204,717)	**(14,712,266)**
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,656,817,178	**7,704,925,983**
Effect of PCCW Shares awarded under the Company's share award schemes	8,477,779	**9,065,515**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,665,294,957	**7,713,991,498**

15 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	2016					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,675	14,399	19,792	13,549	1,737	51,152
Additions	–	501	410	591	1,725	3,227
Transfers	(77)	409	556	413	(1,378)	(77)
Disposals	–	(243)	(326)	(101)	(2)	(672)
Exchange differences	8	(129)	(33)	(25)	–	(179)
Transferred to disposal group classified as held for sale *(note 25(h))*	–	(573)	–	(85)	(14)	(672)
End of year	1,606	14,364	20,399	14,342	2,068	52,779
Accumulated depreciation and impairment						
Beginning of year	531	10,441	11,045	10,422	–	32,439
Charge for the year	51	471	568	684	–	1,774
Transfers	(7)	–	–	–	–	(7)
Disposals	–	(243)	(326)	(98)	–	(667)
Exchange differences	1	(68)	(16)	(35)	–	(118)
Transferred to disposal group classified as held for sale *(note 25(h))*	–	(274)	–	(69)	–	(343)
End of year	576	10,327	11,271	10,904	–	33,078
Net book value						
End of year	1,030	4,037	9,128	3,438	2,068	19,701
Beginning of year	1,144	3,958	8,747	3,127	1,737	18,713

15 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	2017					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,606	14,364	20,399	14,342	2,068	52,779
Additions	40	500	249	574	2,047	3,410
Transfers	16	583	481	430	(1,510)	–
Transferred from investment properties *(note 16)*	121	–	–	–	–	121
Transferred to disposal group classified as held for sale	–	(20)	–	–	–	(20)
Disposals	(3)	(222)	(127)	(169)	–	(521)
Exchange differences	4	22	191	17	–	234
End of year	1,784	15,227	21,193	15,194	2,605	56,003
Accumulated depreciation and impairment						
Beginning of year	576	10,327	11,271	10,904	–	33,078
Charge for the year	45	412	476	709	–	1,642
Transferred to disposal group classified as held for sale	–	(2)	–	–	–	(2)
Disposals	(1)	(221)	(127)	(165)	–	(514)
Exchange differences	1	22	95	–	–	118
End of year	621	10,538	11,715	11,448	–	34,322
Net book value						
End of year	1,163	4,689	9,478	3,746	2,605	21,681
Beginning of year	1,030	4,037	9,128	3,438	2,068	19,701

As at December 31, 2017, certain property, plant and equipment with an aggregate carrying value of approximately HK$89 million (2016: HK$2 million) were pledged as security for certain bank loan facilities of the Group. Refer to note 41 for details of the Group's bank loan facilities.

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

During the year ended December 31, 2017, the Group performed a review to reassess the useful lives of certain property, plant and equipment of the Group, based on the expectations of the Group's operational management and technological trends. The reassessment has resulted in changes in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and therefore accounted for the change on a prospective basis. As a result of this change in accounting estimate, the Group's profit attributable to the equity holders of the Company for the year ended December 31, 2017 increased by HK$91 million (2016: HK$282 million) and the equity attributable to the equity holders of the Company as at December 31, 2017 increased by HK$91 million (2016: HK$282 million).

16 INVESTMENT PROPERTIES

In HK$ million	2016	**2017**
Beginning of year	2,084	**3,216**
Additions	1,126	**647**
Transferred to property, plant and equipment *(note 15)*	–	**(121)**
Exchange differences	4	**2**
Fair value gains	2	**–**
End of year	3,216	**3,744**

During the year ended December 31, 2017, a portion of the property has been changed from investment property held for rental purpose to owner-occupied property at the commencement of owner occupation and the respective fair value of HK$121 million has been reclassified to property, plant and equipment at the date of transfer.

There was no unrealized gains of the investment properties for the year ended December 31, 2017 (2016: gains of HK$2 million) recognized in the consolidated income statement as "Fair value gains on investment properties".

As at December 31, 2016, a sum of approximately HK$62 million advanced to the contractors in relation to the construction of the investment property is included in "Prepayments, deposits and other current assets" in the consolidated statement of financial position. There is no such balance as at December 31, 2017 as the construction of the property has been completed.

As at December 31, 2017, value added tax receivables of approximately HK$275 million and HK$6 million (2016: HK$236 million and HK$10 million) in relation to the land acquisition and construction of the investment property are included in "Other non-current assets" and current assets "Prepayments, deposits and other current assets" in the consolidated statement of financial position respectively.

a. Estimation of fair values and valuation techniques

The tables below analyze the investment properties carried at fair value as at December 31, 2016 and 2017. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets (level 1);
– Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
– Inputs for asset that are not based on observable market data (level 3).

In HK$ million	2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties				
Indonesia	–	–	3,188	3,188
Hong Kong	–	28	–	28
	–	28	3,188	3,216

In HK$ million	**2017**			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Investment properties				
Indonesia	**–**	**–**	**3,744**	**3,744**

(Amount expressed in Hong Kong dollars unless otherwise stated)

16 INVESTMENT PROPERTIES *(CONTINUED)*

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

The fair values of investment properties in Hong Kong included in level 2 as at December 31, 2016 have been estimated using current prices in an active market for similar locations and type.

During the years ended December 31, 2016 and 2017, there were no transfers between different levels.

Information about level 3 fair value measurements

Investment properties	Valuation technique	2016 Unobservable inputs	Rate
Indonesia	Residual value approach	Price per net saleable area	US$5,750/sq.m. to US$6,000/sq.m.
		Construction cost	US$2,285/sq.m. to US$2,460/sq.m.

Information about level 3 fair value measurements

Investment properties	**Valuation technique**	**2017 Unobservable inputs**	**Rate**
Indonesia	**Income capitalization approach**	**Capitalization rate**	**7%**
		Monthly gross market rent:	
		for office	***Rp 340,000/sq.m. to Rp 479,000/sq.m.**
		for retail	**Rp 330,000/sq.m. to Rp 600,000/sq.m.**

* Rp represents Indonesian Rupiah

For the investment property in Indonesia, PCPD management estimated the fair value of the property as at December 31, 2016, using residual value approach, with reference to estimated sales prices of similar completed properties allowing for the outstanding development costs, primarily construction costs to complete. For the year ended December 31, 2017, the fair value of investment property is determined by an independent professional valuer and the valuation approach has been changed to the income capitalization approach as the construction of the property has been completed and the property is available for tenants' occupation. The valuation takes into account expected market rental and capitalization rate. A significant change in the expected market rental or capitalization rate would result in a significant change in the fair value of the investment property.

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

16 INVESTMENT PROPERTIES *(CONTINUED)*

c. As at December 31, 2017, the total future minimum lease receipts in respect of investment properties under non-cancellable operating leases are receivables as follows:

In HK$ million	2016	**2017**
Within 1 year	49	**98**
After 1 year but within 5 years	43	**410**
After 5 years	4	**320**
	96	**828**

d. As at December 31, 2016, investment properties with a carrying value of approximately HK$3,188 million were pledged as security for certain bank loan facilities of the Group. This pledge was released during the year ended December 31, 2017. Refer to note 41 for details of the Group's bank loan facilities.

17 INTERESTS IN LEASEHOLD LAND

In HK$ million	2016	**2017**
Cost		
Beginning and end of year	820	**820**
Accumulated amortization		
Beginning of year	378	**398**
Charge for the year	20	**18**
End of year	398	**416**
Net book value		
End of year	422	**404**
Beginning of year	442	**422**

As at December 31, 2017, there was no leasehold land included in properties under development (2016: nil).

18 PROPERTIES HELD FOR/UNDER DEVELOPMENT

In HK$ million	2016		
	Properties held for development *(note a)*	Properties under development *(note b)*	Total
Beginning of year	525	326	851
Additions	13	29	42
Exchange differences	6	25	31
End of year	544	380	924

In HK$ million	**2017**		
	Properties held for development *(note a)*	**Properties under development** *(note b)*	**Total**
Beginning of year	**544**	**380**	**924**
Additions	**5**	**208**	**213**
Exchange differences	**49**	**2**	**51**
End of year	**598**	**590**	**1,188**

a. Properties held for development as at December 31, 2017 represents freehold land in Thailand, for which PCPD and its subsidiaries (collectively the "PCPD Group") intends for future development projects. The land in Thailand is held by the PCPD Group through a long-term operating lease agreement with the legal owners, 39% owned entities of PCPD, established to hold the land, whose financial statements have been consolidated into these consolidated financial statements.

PCPD management has performed assessments of the net realizable value of the property interest together with the costs of improvements spent on the land in Thailand included in properties held for development as at December 31, 2017. The valuation is based on the direct comparison approach which involves the use of estimates and assumptions including the recent sales prices of similar properties with adjustments for any difference in nature, locality and condition of the properties. Changes in the assumptions adopted in the valuation may result in a change in future estimates of the net realizable value of the development project.

b. Properties under development as at December 31, 2017 represents freehold land in Japan which is held by an indirect wholly-owned subsidiary of PCPD. PCPD management has performed an assessment of the net realizable value of the development project in Japan included in properties under development as at December 31, 2017. The assessment is based on the discounted cash flow forecast of the development project which involves the use of significant estimates and assumptions such as selling prices, construction costs and discount rate. Changes in the assumptions adopted in the valuation may result in a change in future estimate of the net realizable value of the development project.

19 GOODWILL

In HK$ million	2016	**2017**
Cost		
Beginning of year	18,349	**18,249**
Exchange differences	(38)	**33**
Transferred to disposal group classified as held for sale *(note 25(h))*	(62)	**–**
End of year	18,249	**18,282**
Accumulated impairment		
Beginning of year	166	**154**
Transferred to disposal group classified as held for sale *(note 25(h))*	(12)	**–**
End of year	154	**154**
Carrying amount		
End of year	18,095	**18,128**
Beginning of year	18,183	**18,095**

Impairment tests for CGUs containing goodwill

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

In HK$ million	2016	**2017**
HKT		
Mobile	15,591	**15,591**
Global Business	834	**855**
Teleservices	197	**201**
	16,622	**16,647**
Media Business		
Over-The-Top ("OTT") Business	949	**957**
TV and related services	162	**162**
	1,111	**1,119**
Solutions Business	271	**271**
PCPD	91	**91**
Total	18,095	**18,128**

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 generally covering a 5-year period, except for the Media Businesses of which a period of up to 10 years is considered appropriate to take into account the business cycle and the significant growth plans for the business which is currently in the start-up and development stage. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

19 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill *(continued)*

The key assumptions used for value-in-use calculations in 2016 and 2017 are as follows:

	2016				**2017**			
	Revenue growth rate	EBITDA growth rate	Terminal growth rate	Discount rate	**Revenue growth rate**	**EBITDA growth rate**	**Terminal growth rate**	**Discount rate**
Mobile	2%	5%	2%	9%	**1%**	**3%**	**2%**	**11%**
Global Business	1%	4%	3%	10%	**1%**	**6%**	**3%**	**9%**
Teleservices	1%	1%	2%	9%	**1%**	**1%**	**1%**	**8%**
OTT Business	79%	134%	2%	14%	**43%**	**118%**	**3%**	**18%**
TV and related services	8%	30%	2%	14%	**8%**	**26%**	**2%**	**14%**
Solutions Business	4%	4%	2%	11%	**4%**	**4%**	**2%**	**11%**

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, 2017.

Management determined budgeted revenue and EBITDA growth rates based on past performance and its expectations for market development. The average growth rates used are consistent with the forecasts included in industry reports. The terminal growth rates do not exceed the long-term average growth rates for the businesses in which the CGUs operate. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

20 INTANGIBLE ASSETS

In HK$ million	2016								
	Trademarks	Capitalized programme costs	Wireless broadband licences	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost									
Beginning of year	2,926	716	393	3,513	5,327	3,106	1,426	38	17,445
Additions	–	592	–	2,061	3,179	–	669	5	6,506
Write-off	–	(38)	–	(499)	(2,742)	–	–	–	(3,279)
Exchange differences	(10)	–	(63)	–	(2)	(11)	–	–	(86)
Transferred to disposal group classified as held for sale *(note 25(h))*	–	–	(330)	–	(12)	–	–	–	(342)
End of year	2,916	1,270	–	5,075	5,750	3,095	2,095	43	20,244
Accumulated amortization and impairment									
Beginning of year	1,291	421	246	1,251	2,625	792	285	8	6,919
Charge for the year	146	396	22	452	3,087	488	311	6	4,908
Write-off	–	(38)	–	(499)	(2,742)	–	–	–	(3,279)
Exchange differences	(2)	–	(42)	–	(2)	(4)	–	–	(50)
Transferred to disposal group classified as held for sale *(note 25(h))*	–	–	(226)	–	(10)	–	–	–	(236)
End of year	1,435	779	–	1,204	2,958	1,276	596	14	8,262
Net book value									
End of year	1,481	491	–	3,871	2,792	1,819	1,499	29	11,982
Beginning of year	1,635	295	147	2,262	2,702	2,314	1,141	30	10,526

20 INTANGIBLE ASSETS *(CONTINUED)*

In HK$ million	2017							
	Trademarks	Capitalized programme costs	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost								
Beginning of year	2,916	1,270	5,075	5,750	3,095	2,095	43	20,244
Additions	–	774	103	3,525	–	1,396	4	5,802
Transferred to disposal group classified as held for sale	–	–	–	–	(1)	–	–	(1)
Write-off	–	(142)	–	(2,967)	–	–	–	(3,109)
Exchange differences	4	1	–	4	7	1	–	17
End of year	2,920	1,903	5,178	6,312	3,101	3,492	47	22,953
Accumulated amortization and impairment								
Beginning of year	1,435	779	1,204	2,958	1,276	596	14	8,262
Charge for the year	147	528	413	3,194	488	282	16	5,068
Write-off	–	(142)	–	(2,967)	–	–	–	(3,109)
Exchange differences	1	1	–	2	2	–	–	6
End of year	1,583	1,166	1,617	3,187	1,766	878	30	10,227
Net book value								
End of year	1,337	737	3,561	3,125	1,335	2,614	17	12,726
Beginning of year	1,481	491	3,871	2,792	1,819	1,499	29	11,982

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

(Amount expressed in Hong Kong dollars unless otherwise stated)

21 SUBSIDIARIES

a. As at December 31, 2017, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Interest held by non-controlling interests
HKT Limited	Cayman Islands/ Hong Kong	Investment holding	HK$3,785,871.167 ordinary shares and HK$3,785,871.167 preference shares	–	52.0%	48.0%
HKT Group Holdings Limited[3] ("HKTGH")	Cayman Islands	Investment holding	US$636,000,010	–	52.0%	48.0%
Hong Kong Telecommunications (HKT) Limited[3] ("HKTL")	Hong Kong	Provision of telecommunications services	HK$9,945,156,001	–	52.0%	48.0%
電訊盈科科技(北京)有限公司[1,3] (PCCW Technology (Beijing) Limited*)	The People's Republic of China ("PRC")	System integration, software development and technical services consultancy	RMB40,000,000	–	52.0%	48.0%
HKT Services Limited[3]	Hong Kong	Provision of management services to group companies	HK$1	–	52.0%	48.0%
Esencia Investments Limited	British Virgin Islands	Investment holding	US$1	–	100%	–
Great Epoch Holdings Limited	British Virgin Islands	Investment holding	US$2	–	100%	–
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support services, electronics and communications engineering, products and solutions	HK$700,002	–	100%	–
CSL Mobile Limited[3]	Hong Kong	Provision of mobile services to its customers and the sale of mobile handsets and accessories	HK$7,900,280,100 ordinary shares and HK$1,254,000,000 non-voting deferred shares	–	52.0%	48.0%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services, the sale of advertising in various telephone directories, the publishing of those directories in Hong Kong and the sale of advertising on the Internet	HK$5,507,310,269 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares	–	100%	–
PCCW Content Limited	Hong Kong	Media	HK$1	–	100%	–
Moov (Hong Kong) Limited[6]	Hong Kong	Provision of multi-platform digital music service	HK$1	–	82%	18%
PCCW OTT (Hong Kong) Limited[6]	Hong Kong	Provision of interactive multimedia services	HK$1	–	82%	18%
HK Television Entertainment Company Limited[4] ("HKTVE")	Hong Kong	Broadcasting and related services	HK$50 "A" Class shares (non-voting), HK$100 "B" Class shares (voting) and HK$50 "C" Class shares (non-voting)	–	100%	–
Vuclip, Inc.[6]	California, U.S.	Management and engineering support services	US$1	–	77.7%	22.3%
PCCW Productions Limited	Hong Kong	Production of content for different media	HK$2	–	100%	–
HKT Teleservices International Limited[3]	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$350,000,002	–	52.0%	48.0%
廣州電盈綜合客戶服務技術發展有限公司[1,3] (PCCW Customer Management Technology and Services (Guangzhou) Limited*)	The PRC	Customer service and consultancy	HK$93,240,000	–	52.0%	48.0%
PCCW (Macau), Limitada[2,3]	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	–	39.0%	61.0%
PCCW Global B.V.[3]	Netherlands/France	Sales, distribution and marketing of telecommunication services and products	EUR18,000	–	52.0%	48.0%

21 SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2017, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Interest held by non-controlling interests
PCCW Global (HK) Limited[3]	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK$10	–	52.0%	48.0%
PCCW Global Limited[3]	Hong Kong/Dubai Media City	Provision of network-based telecommunications services	HK$240,016,690.65	–	52.0%	48.0%
PCCW Global, Inc.[3]	Delaware, U.S.	Supply of broadband internet access solutions and web services	US$18.01	–	52.0%	48.0%
PCCW Global (Japan) K.K.[3]	Japan	Provision of telecommunications services	JPY10,000,000	–	52.0%	48.0%
HKT Global (Singapore) Pte. Ltd.[3]	Singapore/Malaysia	Provision of telecommunications solutions related services	S$60,956,485.64	–	52.0%	48.0%
Gateway Global Communications Limited[3]	United Kingdom	Provision of network-based telecommunications services to external customers and related companies	GBP1	–	52.0%	48.0%
Gateway Communications (Proprietary) Limited[3]	South Africa	Sales and distribution of integrated global communications solutions to customers in South Africa	ZAR1,000	–	52.0%	48.0%
Sun Mobile Limited[2,3]	Hong Kong	Provision of mobile telecommunications services to customers in Hong Kong	HK$41,600,000	–	31.2%	68.8%
電訊盈科(北京)有限公司[1] (PCCW (Beijing) Limited*)	The PRC	Software development, systems integration, consulting and informatization projects	US$10,250,000	–	100%	–
PCCW Solutions Limited	Hong Kong	Provision of computer services and IP/IT related value-added services to business customers	HK$756,294,067.89	–	100%	–
電訊盈科信息技術(廣州)有限公司[1] (PCCW Solutions (Guangzhou) Limited*)	The PRC	Systems integration and technology consultancy	HK$35,300,000	–	100%	–
Pacific Century CyberWorks Solutions (Macau) Limited	Macau	Provision of integrated information, communications and technology services, infrastructure construction outsourcing, application outsourcing, specific business process outsourcing services for various industries and cloud computing	MOP25,000	–	100%	–
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related value-added services to business customers	HK$2	–	100%	–
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Provision of data center services	HK$2	–	100%	–
Pacific Century Premium Developments Limited	Bermuda/Hong Kong	Investment holding	HK$201,234,656.50	–	70.8%	29.2%
Cyber-Port Limited[5]	Hong Kong	Property development	HK$2	–	70.8%	29.2%
Talent Master Investments Limited[5]	British Virgin Islands/ Hong Kong	Property investment	US$1	–	70.8%	29.2%
Nihon Harmony Resorts KK[5]	Japan	Ski operation	JPY405,000,000	–	70.8%	29.2%
Harmony TMK[5]	Japan	Property development	JPY100,000,000 specified shares and JPY9,750,000,000 preferred shares	–	70.8%	29.2%
PT Prima Bangun Investama[5]	Indonesia	Property development and management	US$26,000,000	–	70.8%	29.2%
Phang-nga Leisure Limited[2,5]	Thailand	Property holding and leasing	THB2,000,000	–	27.6%	72.4%
Phang-nga Paradise Limited[2,5]	Thailand	Property holding and leasing	THB2,000,000	–	27.6%	72.4%

* Unofficial company name

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

21 SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2017, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Notes:

1 Represents a wholly foreign owned enterprise.
2 These companies are consolidated by the Group as the Group owns more than one half of the shareholders' voting rights and/or more than one half of the voting rights in the board of directors of these companies.
3 These companies are subsidiaries of HKT Trust and HKT, Share Stapled Units of which are listed on the main board of the Stock Exchange, which prepares its consolidated financial statements for HKT Trust, HKT and its subsidiaries (collectively the "HKT Group") in accordance with Hong Kong Financial Reporting Standards.
4 Where applicable for the purposes of the Broadcasting Ordinance (Cap. 562) and the Hong Kong Companies Ordinance (Cap. 622), PCCW treats HKTVE as a non-subsidiary as defined therein.
5 These companies are subsidiaries of PCPD, shares of which are listed on the main board of the Stock Exchange, which prepares its consolidated financial statements for PCPD Group in accordance with Hong Kong Financial Reporting Standards. The Group holds approximately 70.8% of the ordinary shares of PCPD and certain non-redeemable bonus convertible notes with conversion rights to acquire a further approximately 21.8% of ordinary shares of PCPD. As the non-redeemable bonus convertible notes contain rights to dividends and can be converted at any time provided that the public float requirements could be complied with, PCCW consolidates the results of PCPD on its approximately 92.6% economic interest taking into account the non-redeemable bonus convertible notes on an as-converted basis in accordance with Hong Kong Financial Reporting Standards.
6 These companies are subsidiaries of PCCW International OTT (Cayman Islands) Holdings Limited ("PCCW OTT"), previously an indirect wholly-owned subsidiary of the Company. On September 25, 2017, PCCW OTT issued and allotted to three investors an aggregate of 11,000,000 series A convertible redeemable voting preference shares of a par value of US$1.00 each (the "OTT Preference Shares"), representing approximately 18% of its enlarged issued share capital. Refer to note 35 for details. PCCW consolidates the results of PCCW OTT and its subsidiaries on its 100% economic interest taking into account the OTT Preference Shares in accordance with Hong Kong Financial Reporting Standards.

b. Significant restrictions

Refer to note 25(b) for the restricted cash balances that mainly relate to PCPD included within the consolidated financial statements which are subject to the Cyberport Project Agreement.

c. Summarized financial information of subsidiaries with material non-controlling interests

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

Summarized statements of financial position as at December 31, 2016 and 2017 are as follows:

In HK$ million	HKT Group		PCPD Group	
	2016	**2017**	2016	**2017**
Non-current assets	80,921	**82,533**	4,665	**5,880**
Current assets	12,445	**12,832**	1,663	**4,469**
Total assets	93,366	**95,365**	6,328	**10,349**
Current liabilities	(11,302)	**(11,663)**	(1,102)	**(910)**
Non-current liabilities	(42,905)	**(44,643)**	(280)	**(4,778)**
Net assets	39,159	**39,059**	4,946	**4,661**
Non-controlling interests	(63)	**(40)**	–	**–**
Net assets after non-controlling interests	39,096	**39,019**	4,946	**4,661**

Summarized financial information for the years ended December 31, 2016 and 2017 is as follows:

In HK$ million	HKT Group		PCPD Group	
	2016	**2017**	2016	**2017**
Revenue	33,847	**33,258**	174	**164**
Profit/(loss) before income tax	5,698	**6,080**	(346)	**(314)**
Income tax	(771)	**(971)**	(18)	**(26)**
Profit/(loss) for the year	4,927	**5,109**	(364)	**(340)**
Other comprehensive income/(loss)	714	**(432)**	56	**55**
Total comprehensive income/(loss)	5,641	**4,677**	(308)	**(285)**
Non-controlling interests	(38)	**(12)**	–	**–**
Total comprehensive income/(loss) after non-controlling interests	5,603	**4,665**	(308)	**(285)**
Dividends paid to non-controlling interests	1,587	**2,320**	–	**–**

21 SUBSIDIARIES *(CONTINUED)*

c. Summarized financial information of subsidiaries with material non-controlling interests *(continued)*

Summarized cash flows for the years ended December 31, 2016 and 2017 are as follows:

In HK$ million	HKT Group		PCPD Group	
	2016	**2017**	2016	**2017**
Cash flows from operating activities				
Cash generated from/(used in) operations	12,800	**12,827**	(408)	**(340)**
Interest received	13	**26**	11	**42**
Income tax paid, net of tax refund	(551)	**(711)**	(14)	**(22)**
Net cash generated from/(used in) operating activities	12,262	**12,142**	(411)	**(320)**
Net cash used in investing activities	(7,934)	**(7,457)**	(992)	**(1,810)**
Net cash (used in)/generated from financing activities	(5,207)	**(4,360)**	449	**3,866**
Net (decrease)/increase in cash and cash equivalents	(879)	**325**	(954)	**1,736**
Exchange differences	(7)	**10**	7	**29**
Cash and cash equivalents at January 1,	3,768	**2,882**	1,815	**868**
Cash and cash equivalents at December 31,	2,882	**3,217**	868	**2,633**

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

The total comprehensive income after group consolidation adjustments of HKT Group for the year ended December 31, 2017 was HK$4,574 million (2016: HK$5,567 million), of which HK$2,216 million (2016: HK$2,091 million) was allocated to the non-controlling interests.

The total comprehensive loss after group consolidation adjustments of PCPD Group for the year ended December 31, 2017 was HK$285 million (2016: HK$308 million), of which a loss of HK$21 million (2016: HK$23 million) was allocated to the non-controlling interests.

The net assets after group consolidation adjustments of HKT Group as at December 31, 2017 were HK$5,984 million (2016: HK$6,206 million) and the net assets after group consolidation adjustments of PCPD Group as at December 31, 2017 were HK$4,596 million (2016: HK$4,881 million).

The total non-controlling interests as at December 31, 2017 were HK$3,264 million (2016: HK$2,750 million), of which HK$2,914 million (2016: HK$2,360 million) and HK$339 million (2016: HK$360 million) were attributed to HKT Group and PCPD Group, respectively.

22 INTERESTS IN ASSOCIATES

In HK$ million	2016	**2017**
Share of net assets of associates	718	**844**
Loans due from associates, net	291	**313**
Amount due from an associate	34	**34**
	1,043	**1,191**
Provision for impairment	(318)	**(472)**
	725	**719**
Investments at cost, unlisted shares	811	**824**

a. Particulars of the principal associates of the Group are as follows:

Company name	Principal place of business/place of incorporation	Principal activities	Amount of issued capital/registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
石化盈科信息技術有限責任公司 (Petro-CyberWorks Information Technology Company Limited*) ("PCITC")	The PRC	Design and development of enterprise resource planning systems, and customer relationship management systems	RMB300,000,000	–	45%	Equity
東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited*) ("DJTCL")#	The PRC	Provision of support service for mobile service subscriptions, sales of mobile phones and accessories	RMB40,000,000	–	18.2%	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	–	17.4%	Equity

* Unofficial company name
\# As at December 31, 2017, DJTCL and Latto were not considered as principal associates of the Group.

PCITC is strategic to the Group's growth in its Solutions business and provides the Group with access to expertise in design and development of enterprise resources planning, logistics management, supply chain management, customer relationship management and information system supervision, consultation and testing.

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

22 INTERESTS IN ASSOCIATES *(CONTINUED)*

b. Commitments and contingent liabilities in respect of associates

As at December 31, 2017, the Group's share of its associates' commitments, based on the Group's effective interests, are as follows:

In HK$ million	2016	**2017**
Operating lease commitments		
Within 1 year	6	**8**
After 1 year but within 5 years	6	**8**
	12	**16**

The Group's contingent liabilities relating to its associates are disclosed in note 40. As at December 31, 2017, the Group's effective share of the contingent liabilities of an associate relating to performance guarantees was HK$13 million (2016: HK$2 million).

c. Summarized unaudited financial information of the Group's associates

Set out below is the summarized unaudited financial information for associates that are material to the Group and are accounted for using the equity method.

Summarized unaudited financial information is as follows:

In HK$ million	PCITC As at December 31,		DJTCL As at December 31,		Latto As at December 31,	
	2016	**2017**	2016	**2017**	2016	**2017**
Non-current assets	605	**739**	3	**3**	52	**56**
Current assets	3,889	**3,956**	72	**72**	16	**8**
Current liabilities	(3,221)	**(3,068)**	(426)	**(467)**	(16)	**(21)**
Non-current liabilities	(14)	**(94)**	–	**–**	–	**–**

In HK$ million	PCITC For the year ended December 31,		DJTCL For the year ended December 31,		Latto For the year ended December 31,	
	2016	**2017**	2016	**2017**	2016	**2017**
Revenue	3,255	**3,640**	227	**321**	4	**17**
Profit/(Loss) after income tax and total comprehensive income/(loss)	176	**210**	(29)	**(22)**	(10)	**(11)**
Dividends received from associates	5	**6**	–	**–**	–	**–**

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

For the year ended December 31, 2017, the aggregate total net amounts of the Group's share of the profit after income tax, other comprehensive income and total comprehensive income of individually immaterial associates that are accounted for using the equity method are nil (2016: nil), nil (2016: nil) and nil (2016: nil), respectively.

22 INTERESTS IN ASSOCIATES *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information

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

In HK$ million	PCITC		DJTCL		Latto	
	2016	**2017**	2016	**2017**	2016	**2017**
Net assets/(liabilities)						
Beginning of year	1,161	**1,259**	(344)	**(351)**	–	**52**
At date of acquisition	–	**–**	–	**–**	64	**–**
Profit/(Loss) and total comprehensive income/(loss) for the year/since acquisition	176	**210**	(29)	**(22)**	(10)	**(11)**
Exchange differences	(67)	**76**	22	**(19)**	(2)	**2**
Dividends	(11)	**(12)**	–	**–**	–	**–**
End of year	1,259	**1,533**	(351)	**(392)**	52	**43**
Interests in associates	45%	**45%**	35%*	**35%***	33.5%*	**33.5%***
Interests in associates	567	**690**	(123)	**(137)**	17	**14**
Goodwill	–	**–**	24	**24**	46	**52**
Loans due from associates	–	**–**	313	**340**	–	**8**
Provision for impairment	–	**–**	(147)	**(227)**	–	**(74)**
Carrying value	567	**690**	67	**–**	63	**–**

* The Group held approximately 18.2% (2016: 22.1%) and 17.4% (on an as-converted basis) (2016: 21.1%) effective interest through its non-wholly owned subsidiaries in the equity of DJTCL and Latto respectively as at December 31, 2017.

As at December 31, 2017, loans due from DJTCL comprised certain unsecured loans totaling HK$160 million (2016: HK$118 million) which bear interest at 4% per annum (2016: 4% per annum) and are repayable within 1 year (2016: same), and certain secured loans totaling HK$180 million (2016: HK$195 million) which bear interest at 4% per annum (2016: 4% per annum) and are repayable within 1 year (2016: same). The amount was considered as equity in nature for which full provision for impairment has been made as at December 31, 2017.

As at December 31, 2017, loan due from Latto amounted to HK$8 million (2016: nil), which bears interest at 8% per annum, is secured and repayable in 2 years. The amount was considered as equity in nature for which full provision for impairment has been made as at December 31, 2017.

During the year ended December 31, 2017, a provision for impairment of interests in associates amounted to HK$154 million (2016: nil) is included in "Other gains, net" in the consolidated income statement. This was resulted from the revised expectation that the carrying value of the associates is no longer recoverable.

As at December 31, 2017, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method is HK$29 million (2016: HK$28 million).

During the year ended December 31, 2017, the Group did not have any unrecognized share of losses of associates (2016: nil). As at December 31, 2017, there was no accumulated share of losses of the associates unrecognized by the Group (2016: nil).

23 INTERESTS IN JOINT VENTURES

In HK$ million	2016	**2017**
Share of net assets of joint ventures	3,003	**2,981**
Loans due from joint ventures, net	468	**449**
Amounts due from joint ventures	25	**25**
	3,496	**3,455**
Provision for impairment	(2,868)	**(2,863)**
	628	**592**
Investments at cost, unlisted shares	3,871	**3,876**

As at December 31, 2017, balances with joint ventures are unsecured and non-interest bearing, and have no fixed terms of repayment except that the loan due from a joint venture of HK$426 million (2016: HK$446 million) bears interest at HIBOR plus 3% per annum (2016: same) with no fixed terms of repayment. The amounts are considered as part of the interests in joint ventures.

a. As at December 31, 2017, particulars of the principal joint venture of the Group is as follows:

Company name	Principal place of business/place of incorporation	Principal activities	Amount of issued capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	26.0%	Equity

GBL is a strategic partnership of the Group, providing access to advanced 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, 2017, the Group's share of its joint ventures' commitments, based on the Group's effective interest, is as follows:

In HK$ million	2016	**2017**
Commitment to provide funding	55	**45**

In HK$ million	2016	**2017**
Capital commitment authorized and contracted for acquisition of property, plant and equipments	–	**29**
Operating lease commitments		
Within 1 year	3	**5**
After 1 year but within 5 years	4	**7**
	7	**12**

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2017, the Group had no effective share of contingent liabilities relating to its joint ventures (2016: HK$24 million bank guarantees).

23 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's joint ventures

Set out below is summarized unaudited financial information for the joint venture that is material to the Group and accounted for using the equity method.

In HK$ million	GBL As at December 31, 2016	GBL As at December 31, **2017**
Non-current assets	986	**961**
Current assets		
Cash and cash equivalents	30	**12**
Other current assets (excluding cash and cash equivalents)	25	**30**
Total current assets	55	**42**
Current liabilities		
Financial liabilities (excluding trade payables, other payables and accruals)	(275)	**(285)**
Other current liabilities (including trade payables, other payables and accruals)	(61)	**(88)**
Total current liabilities	(336)	**(373)**
Non-current liabilities		
Financial liabilities	(730)	**(663)**
Other non-current liabilities	(24)	**(30)**
Total non-current liabilities	(754)	**(693)**
Net liabilities	(49)	**(63)**
Equity attributable to equity holders	(49)	**(63)**

In HK$ million	GBL For the year ended December 31, 2016	GBL For the year ended December 31, **2017**
Revenue	219	**245**
Depreciation and amortization	(84)	**(97)**
Interest expense	(32)	**(34)**
Profit before income tax	1	**1**
Income tax	(10)	**(15)**
Loss after income tax and total comprehensive loss	(9)	**(14)**
Dividends received from the joint venture	–	**–**

The information above reflects the amounts presented in the financial statements of the joint venture (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint venture, if any.

For the year ended December 31, 2017, the aggregate total net amounts of the Group's share of the loss after income tax, other comprehensive income and total comprehensive loss of individually immaterial joint ventures that are accounted for using the equity method are HK$22 million (2016: HK$17 million), nil (2016: nil) and HK$22 million (2016: HK$17 million), respectively.

23 INTERESTS IN JOINT VENTURES *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interest in the principal joint venture.

In HK$ million	GBL 2016	GBL 2017
Net liabilities		
Beginning of year	(40)	**(49)**
Loss and total comprehensive loss for the year	(9)	**(14)**
End of year	(49)	**(63)**
Interest in joint venture	50%*	**50%***
Interest in joint venture	(24)	**(32)**
Loan due from a joint venture	446	**426**
Carrying value	422	**394**

* The Group held approximately 26.0% (2016: 31.5%) effective interest through its non-wholly owned subsidiary in the equity of GBL as at December 31, 2017.

As at December 31, 2017, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method is HK$198 million (2016: HK$206 million).

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	2016	2017
Beginning of year	806	**1,057**
Additions	378	**975**
Disposals	(115)	**(117)**
Impairment loss recognized	(5)	**–**
Net (losses)/gains transferred to equity	(7)	**106**
End of year	1,057	**2,021**

In HK$ million	2016	2017
Listed equity securities – overseas	12	**1,133**
Unlisted equity securities	1,045	**888**
	1,057	**2,021**

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS *(CONTINUED)*

During the year ended December 31, 2016, provision for impairment of HK$19 million was included in "Other gains, net" in the consolidated income statement, including HK$14 million which was transferred from equity to the consolidated income statement on impairment. This was a result of the estimated recoverable amount being lower than its carrying amount. The Group does not hold any collateral over these securities.

During the year ended December 31, 2017, available-for-sale financial assets with a carrying value of approximately HK$117 million (2016: HK$115 million) were sold and a total realized gain of HK$68 million (2016: HK$106 million) was recognized in "Other gains, net" in the consolidated income statement, including HK$9 million (2016: nil) which was transferred from equity to the consolidated income statement on disposal.

As at December 31, 2017, certain available-for-sale financial assets with a carrying value of approximately HK$1,039 million (2016: nil) were pledged as security for certain bank loan facilities of the Group. Refer to note 41 for details of the Group's bank loan facilities.

25 CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of properties of PCPD Group's property development project that are retained in bank accounts opened and maintained by stakeholders. The amount is related to the residential portion of the Cyberport project and will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement. The sales proceeds held in stakeholders' accounts of HK$508 million as at December 31, 2017 (2016: HK$510 million) are exposed to minimum credit risk.

b. Restricted cash

The balance mainly represents a restricted cash balance of approximately HK$93 million as at December 31, 2017 (2016: HK$95 million) held in specific bank accounts, the uses of which are specified in the Cyberport Project Agreement.

c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets of the Group are prepaid programme costs of approximately HK$885 million as at December 31, 2017 (2016: HK$819 million).

d. Inventories

In HK$ million	2016	**2017**
Work-in-progress	491	**492**
Finished goods	381	**367**
Consumable inventories	71	**52**
	943	**911**

25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

e. Trade receivables, net

In HK$ million	2016	**2017**
Trade receivables *(note i)*	4,050	**3,921**
Less: Impairment loss for doubtful debts *(note ii)*	(272)	**(257)**
Trade receivables, net	3,778	**3,664**

i. Aging of trade receivables based on the date of invoice

In HK$ million	2016	**2017**
1–30 days	2,276	**2,366**
31–60 days	510	**410**
61–90 days	324	**248**
91–120 days	223	**205**
Over 120 days	717	**692**
	4,050	**3,921**

ii. Impairment loss for doubtful debts

The movement in the provision for doubtful debts during the year, including both specific and collective loss components, is as follows:

In HK$ million	2016	**2017**
Beginning of year	247	**272**
Impairment loss recognized	337	**288**
Uncollectible amounts written off	(311)	**(303)**
Transferred to disposal group classified as held for sale	(1)	**–**
End of year	272	**257**

As at December 31, 2017, trade receivables of HK$257 million (2016: HK$272 million) were impaired. The individually impaired receivables mainly relate to customers in financial difficulties and management assessed that the receivables are not expected to be recovered. The Group does not hold any collateral over these balances.

25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

e. Trade receivables, net *(continued)*

iii. Trade receivables that are not impaired

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

In HK$ million	2016	**2017**
Neither past due nor impaired	1,972	**2,090**
1–30 days past due	701	**594**
31–60 days past due	207	**220**
61–90 days past due	237	**155**
Over 90 days past due	661	**605**
Past due but not considered impaired	1,806	**1,574**
	3,778	**3,664**

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not considered impaired relate to customers that have a good track record with the Group or a sound credit quality. Based on past experience and regular credit risk assessments 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 are amounts due from related parties of HK$55 million (2016: HK$37 million).

f. Short-term borrowings

In HK$ million	2016	**2017**
Bank borrowings	457	**622**
Secured	457	**622**
Unsecured	–	**–**

Refer to note 41 for details of the Group's bank loan facilities.

25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

g. Trade payables

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

In HK$ million	2016	**2017**
1–30 days	1,664	**1,393**
31–60 days	155	**143**
61–90 days	86	**43**
91–120 days	36	**47**
Over 120 days	790	**462**
	2,731	**2,088**

Included in trade payables are amounts due to related parties of HK$43 million (2016: HK$58 million).

h. Assets and liabilities of disposal group classified as held for sale

As at December 31, 2016, the assets and liabilities related to Transvision Investments Limited ("Transvision"), a then indirect wholly-owned subsidiary of the Company, and its subsidiaries were presented as held for sale in the Group's consolidated statement of financial position. UK Broadband Limited, a then direct wholly-owned subsidiary of Transvision (together with Transvision, the "Transvision Group"), was engaged in the provision of wireless broadband services in the United Kingdom. The principal assets of UK Broadband Limited were its holding of certain licences for radio frequency spectrum, its wireless networks and related systems, and its customers.

On February 6, 2017, the Group entered into a share purchase agreement pursuant to which the Group has agreed to sell the entire issued share capital of Transvision to an independent third party (the "Buyer") for GBP250 million cash (equivalent to approximately HK$2,509 million) and two restricted use credit vouchers issued by the Buyer with a face value of GBP25 million (equivalent to approximately HK$251 million) each upon completion of the sale under the share purchase agreement. The aggregate consideration is subject to possible adjustment in accordance with the terms of the share purchase agreement. The credit vouchers can be applied against specific domestic service charges (excluding value added tax) payable under a corresponding mobile virtual network operator ("MVNO") agreement pursuant to which the Buyer will provide access to capacity on its mobile network. Each credit voucher is transferrable, subject to certain restrictions.

The transaction was completed in May 2017. The fair value of the two credit vouchers was not recognized at the completion of the transaction, and at December 31, 2017, due to the uncertainty of potential market condition and the range of potential value being too wide for an amount to be measured reliably. The value will be assessed in future reporting periods and recognized once an amount can be measured reliably.

(i) Assets of disposal group classified as held for sale

	As at December 31,	
In HK$ million	2016	**2017**
Property, plant and equipment *(note 15)*	329	**–**
Goodwill *(note 19)*	50	**–**
Intangible assets *(note 20)*	106	**–**
Deferred income tax assets *(note 33)*	264	**–**
Prepayments, deposits and other current assets	35	**–**
Inventories	13	**–**
Trade receivables, net	4	**–**
Cash and cash equivalents *(note 36(c))*	6	**–**
	807	**–**

25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

h. Assets and liabilities of disposal group classified as held for sale *(continued)*

(ii) Liabilities of disposal group classified as held for sale

In HK$ million	As at December 31, 2016	2017
Trade payables	(2)	–
Accruals and other payables	(29)	–
Advances from customers	(1)	–
Other long-term liabilities	(4)	–
	(36)	–

(iii) Cumulative income or expense recognized in other comprehensive income relating to Transvision Group classified as held for sale

In HK$ million	As at December 31, 2016	2017
Cumulative other comprehensive loss		
Foreign exchange translation adjustments, net of tax	(200)	–

Details of net assets disposed of and the gain on disposal of interests in the Transvision Group are as follows:

In HK$ million	Net assets disposed of and the gain on disposal
Consideration received from disposal of interests in the Transvision Group	**2,509**
Add: Adjustment to consideration finalized in September 2017	**71**
Less: Carrying amount of net assets disposed of and direct expenses	**(1,172)**
Reclassification of currency translation reserve on disposal of subsidiaries	**(172)**
Gain on disposal recognized in the consolidated income statement	**1,236**

25 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

h. Assets and liabilities of disposal group classified as held for sale *(continued)*

The assets and liabilities of the Transvision Group at the date of disposal were as follows:

In HK$ million	Carrying amount
Property, plant and equipment	346
Goodwill	53
Intangible assets	112
Deferred income tax assets	275
Prepayments, deposits, and other current assets	100
Inventories	3
Trade receivables, net	2
Cash and cash equivalents	5
Trade payables	(5)
Accruals and other payables	(9)
Advances from customers	(1)
Other long-term liabilities	(4)
Net assets disposed of	877

In HK$ million	Net cash inflow
Consideration settled by cash, net of direct expenses	2,393
Less: Cash and cash equivalents of the Transvision Group disposed of	(5)
Net inflow of cash and cash equivalents in respect of disposal of the Transvision Group	2,388

i. Other financial assets

Other financial assets of HK$79 million (2016: nil) represents an investment in an unlisted non-equity Libor based liquidity fund designated as financial assets at fair value through profit or loss.

The change in fair values of other financial assets during the year ended December 31, 2017 of HK$1 million (2016: nil) is recognized in "Other gains, net" in the consolidated income statement.

26 LONG-TERM BORROWINGS

In HK$ million	2016	**2017**
Repayable within a period		
– over one year, but not exceeding two years	1,194	**9,350**
– over two years, but not exceeding five years	23,713	**18,804**
– over five years	20,224	**18,459**
	45,131	**46,613**
Representing:		
US$300 million 5.75% guaranteed notes due 2022 *(note a)*	2,190	**2,218**
US$500 million 3.75% guaranteed notes due 2023 *(note b)*	3,736	**3,787**
US$300 million zero coupon guaranteed notes due 2030 *(note c)*	2,311	**2,329**
US$500 million 3.625% guaranteed notes due 2025 *(note d)*	3,829	**3,863**
EUR200 million 1.65% guaranteed notes due 2027 *(note e)*	1,613	**1,830**
US$100 million zero coupon guaranteed notes due 2030 *(note f)*	770	**776**
US$750 million 3.00% guaranteed notes due 2026 *(note g)*	5,775	**5,823**
US$570 million 4.75% guaranteed notes due 2022 *(note h)*	–	**4,422**
Bank borrowings	24,907	**21,565**
	45,131	**46,613**
Secured	–	**51**
Unsecured	45,131	**46,562**

a. US$300 million 5.75% guaranteed notes due 2022

On April 17, 2012, PCCW Capital No. 4 Limited, a direct wholly-owned subsidiary of the Company, issued US$300 million 5.75% guaranteed notes due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

b. US$500 million 3.75% guaranteed notes due 2023

On March 8, 2013, PCCW-HKT Capital No.5 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

c. US$300 million zero coupon guaranteed notes due 2030

On January 15, 2015, HKT Capital No. 1 Limited, an indirect non-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.

26 LONG-TERM BORROWINGS *(CONTINUED)*

d. US$500 million 3.625% guaranteed notes due 2025

On April 2, 2015, HKT Capital No. 2 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 3.625% guaranteed notes due 2025, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

e. EUR200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, an indirect non-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.

f. US$100 million zero coupon guaranteed notes due 2030

On May 20, 2015, PCCW Capital No. 5 Limited, a direct wholly-owned subsidiary of the Company, issued US$100 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 the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

g. US$750 million 3.00% guaranteed notes due 2026

On July 14, 2016, HKT Capital No. 4 Limited, an indirect non-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.

h. US$570 million 4.75% guaranteed notes due 2022

On March 9, 2017, PCPD Capital Limited ("PCPD Capital"), an indirect non-wholly owned subsidiary of the Company, issued US$570 million 4.75% guaranteed notes due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by PCPD and rank pari passu with all other outstanding unsecured and unsubordinated obligations of PCPD Capital and PCPD.

i. Refer to note 41 for details of the Group's bank loan facilities.

27 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

Pursuant to the Cyberport Project Agreement, the Government shall be entitled to receive payments of approximately 65% from the surplus cash flow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. The amount payable to the Government is based on the surplus from sales proceeds of the residential portion after the development costs of the Cyberport project. As at December 31, 2017, the amount attributable to the Government share under the Cyberport Project Agreement was HK$321 million (2016: HK$321 million).

28 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	2016	**2017**
Non-current assets		
Floating-to-fixed interest rate swap contracts		
– cash flow hedges *(note a)*	62	**40**
Fixed-to-fixed cross currency swap contracts and foreign exchange forward contracts		
– cash flow hedges *(note c)*	227	**185**
	289	**225**
Current assets		
Foreign currency option *(note b)*	–	**1**
Non-current liabilities		
Fixed-to-fixed cross currency swap contracts		
– cash flow hedges *(note c)*	(14)	**(149)**
Fixed-to-floating cross currency swap contracts		
– fair value and cash flow hedges *(note d)*	(84)	**(104)**
OTT Preference Shares Derivative (as defined in note 35)*(note e)*	–	**(29)**
	(98)	**(282)**
Current liabilities		
OTT Preference Shares Option (as defined in note 35) *(note e)*	–	**(15)**

a. The floating-to-fixed interest rate swap contract outstanding as at December 31, 2017 has a notional contract amount of HK$1,500 million. The contract pre-determines the interest rate at a fixed level. The contract is designated as a cash flow hedge of the interest rate risk in the Group's floating rate borrowings (see note 38(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", represents the ineffective portion of the hedging relationship, which amounted to a gain of approximately HK$3 million (2016: HK$1 million) for the year ended December 31, 2017.

b. The foreign currency options outstanding as at December 31, 2017 with an option premium amount of approximately EUR1 million (2016: nil). The contract gives the Group a right to sell EUR35 million and buy USD at the strike price of 1.125 EUR/USD expiring in June 2018. The option is remeasured at fair value with a loss of HK$7 million (2016: nil) recognized in the "Other gains, net" in the consolidated income statement for the year ended December 31, 2017.

28 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

c. The fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2017 with notional contract amounts of US$1,250 million (approximately HK$9,694 million) (2016: US$1,250 million (approximately HK$9,694 million)) are designated as cash flow hedges of the foreign currency risk in the Group's foreign currency denominated borrowings. Maturity of these swap contracts matches with the maturity of the underlying borrowings and the Group has fixed the USD/HKD exchange rate at 7.7544 to 7.7580 (2016: 7.7544 to 7.7580) for the notional amounts (see note 38(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contracts represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the borrowings.

As at December 31, 2017, the Group has fixed-to-floating cross currency swap contracts with an aggregate notional contract amount of US$500 million (approximately HK$3,879 million) (2016: 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 Group has fixed the USD/HKD exchange rate at 7.7570 (2016: 7.7570) for the notional amounts (see note 38(c)(i)). The Group further entered into floating-to-fixed interest rate swap contracts with an aggregate notional amount of approximately HK$3,879 million (2016: approximately HK$3,879 million). Accordingly, the Group has 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 costs" represents the ineffective portion of hedging relationship, which amounted to a gain of approximately HK$38 million (2016: a loss of approximately HK$17 million) for the year ended December 31, 2017.

As at December 31, 2017, the Group has outstanding foreign exchange forward contracts with an aggregate notional contract amount of US$503 million (approximately HK$3,887 million) (2016: US$503 million (approximately HK$3,887 million)). The contracts are designated as cash flow hedges of the foreign currency risk in the Group's foreign currency denominated borrowings. The Group has fixed the USD/HKD exchange rate at 7.7329 to 7.7330 (2016: 7.7329 to 7.7330) for the notional amounts (see note 38(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 costs" represents the ineffective portion of hedging relationship, which amounted to a loss of approximately HK$18 million (2016: gain of approximately HK$19 million) for the year ended December 31, 2017.

As at December 31, 2017, the Group has an outstanding fixed-to-fixed cross currency swap contract with a notional contract amount of EUR200 million (approximately HK$1,665 million) (2016: EUR200 million (approximately HK$1,665 million)). The contract is designated as a cash flow hedge of the foreign currency risk in the Group's foreign currency denominated borrowings. Maturity of this swap contract matches with the maturity of the underlying borrowings and the Group has fixed the EUR/HKD exchange rate at 8.3245 (2016: 8.3245) for the notional amount (see note 38(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 costs" represents the ineffective portion of hedging relationship, which amounted to a gain of HK$28 million (2016: nil) for the year ended December 31, 2017.

28 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

d. The Group has fixed-to-floating cross currency swap contracts outstanding as at December 31, 2017 with an aggregate notional contract amount of US$300 million (approximately HK$2,327 million) (2016: US$300 million (approximately HK$2,327 million)). Maturity of these swap contracts matches with the maturity of the underlying fixed rate borrowings and the Group has fixed the USD/HKD exchange rate at 7.7555 (2016: 7.7555) for the notional amounts (see note 38(c)(i)). The swaps also pre-determined the interest margin over HIBOR (see note 38(c)(ii)).

These swap contracts are designated as (i) cash flow hedges of the foreign currency risk in the Group's foreign currency denominated borrowings and (ii) fair value hedges of the interest rate risk in the Group's borrowings at fixed interest rates.

Gains and losses recognized in the hedging reserve under equity on those swap contracts designated as cash flow hedges will be continuously released to the consolidated income statement until the repayment of the underlying borrowings.

Those swap contracts designated as fair value hedges will offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The swap contracts are reflected at fair value in the consolidated statement of financial position and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate debt being hedged, are recognized as adjustments in "Finance costs" in the consolidated income statement. The net effect recognized in the "Finance costs" represents the ineffective portion of the hedging relationship, amounted to approximately a gain of HK$1 million for the current year (2016: loss of HK$1 million).

e. OTT Preference Shares Derivative and OTT Preference Shares Option (both as defined under note 35) are measured at fair value with fair value movement of HK$7 million (2016: nil) recognized in the "Other gains, net" in the consolidated income statement for the year ended December 31, 2017.

Details of the OTT Preference Shares are described in note 35.

29 SHARE CAPITAL

	Year ended December 31,			
	2016		**2017**	
	Number of shares	Share capital HK$ million	**Number of shares**	**Share capital HK$ million**
Ordinary shares, issued and fully paid:				
As at January 1,	7,621,350,679	12,505	**7,719,638,249**	**12,954**
PCCW Shares issued in lieu of cash dividends *(note a)*	88,287,570	449	**–**	**–**
PCCW Shares issued for share award scheme *(note b)*	10,000,000	–	**–**	**–**
As at December 31,	7,719,638,249	12,954	**7,719,638,249**	**12,954**

a. During the year ended December 31, 2016, the Company issued and allotted 84,268,778 and 4,018,792 new fully paid shares at an average price of HK$5.096 and HK$4.952 per share respectively to the shareholders who elected to receive PCCW Shares in lieu of cash for the 2015 final dividend and 2016 interim dividend pursuant to the respective scrip dividend schemes.

b. During the year ended December 31, 2016, the Company issued and allotted 10,000,000 new fully paid shares at HK$0.01 per share under general mandate for the grant of awards pursuant to the share award scheme.

30 EMPLOYEE RETIREMENT BENEFITS

a. Defined benefit retirement schemes

The Group operates defined benefit retirement schemes ("DB Schemes") that provide monthly pension payments for employees retired on or before July 1, 2003. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by an independent trustee and maintained independently of the Group's finances.

The DB Schemes are funded by contributions from the Group and employees in accordance with qualified independent actuaries' recommendations from time to time on the basis of periodic valuations.

The funding valuation as at December 31, 2017 is currently in progress and the expected employer contributions for the year ending December 31, 2018 will be confirmed after the funding valuation is completed.

The independent actuarial valuation of the DB Schemes as at December 31, 2017, prepared in accordance with HKAS 19 (2011), was carried out by Ms Wing Lui of Willis Towers Watson, a fellow of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 64% (2016: 51%) of the present value of the defined benefit retirement schemes obligations as at December 31, 2017.

The weighted average duration of the defined benefit retirement schemes obligations is 13.0 years (2016: 12.2 years).

30 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

i. The amount recognized in the consolidated statement of financial position is as follows:

In HK$ million	2016	**2017**
Present value of the defined benefit retirement schemes obligations *(note iii)*	317	**292**
Fair value of scheme assets *(note iv)*	(163)	**(187)**
Defined benefit retirement schemes liability	154	**105**

In HK$ million	2016	**2017**
Beginning of year	133	**154**
Net costs recognized in consolidated income statement	2	**2**
Remeasurements recognized in consolidated statement of comprehensive income	26	**(38)**
Contributions from employers	(7)	**(13)**
End of year	154	**105**

ii. Major categories of scheme assets as a percentage of total scheme assets are as follows:

	2016	**2017**
Equities	50%	**55%**
Fixed income securities	45%	**36%**
Cash and alternatives	5%	**9%**
Total	100%	**100%**

The Group ensures that the investment positions are managed within an asset-liability matching framework with the objective to match assets to the defined benefit retirement schemes obligations (i.e. to match the benefit payments as they fall due and in the appropriate currency). The Group has not changed the process used to manage its risk from previous periods.

Through the DB Schemes, the Group is exposed to a number of risks, the most significant of which are detailed below:

– Investment risk: strong investment returns tend to increase the fair value of scheme assets and therefore improve the scheme's financial position as measured by the net defined benefit retirement schemes liability/asset, whilst poor or negative investment returns tend to weaken the financial position.

  The scheme assets are invested in a globally diversified portfolio of equities, fixed income securities, cash and alternatives, covering major geographical locations around the world to achieve the best returns over the long term within an acceptable level of risk. The diversification of asset classes and geographical locations helps to reduce the concentration of risk associated with the scheme investments.

– Interest rate risk: the defined benefit retirement schemes obligations are calculated using a discount rate based on market bond yields. A decrease in the bond yields will increase the defined benefit retirement schemes obligations and vice versa. As the bond yields have been volatile in recent years, the discount rate has changed significantly.

– Inflation risk: pension in payment or in deferment may be increased once a year to reflect all or part of the cost-of-living increases in Hong Kong. The higher-than-expected increases in pensions will increase the defined benefit retirement schemes obligations and vice versa.

– Longevity risk: the defined benefit retirement schemes obligations are calculated by reference to the best estimate of the mortality of members after their employment. A decrease in mortality (i.e. improvement in life expectancy) will increase the defined benefit retirement schemes obligations.

30 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

iii. Movements in the present value of the defined benefit retirement schemes obligations are as follows:

In HK$ million	2016	**2017**
Beginning of year	296	**317**
Interest cost	5	**4**
Remeasurements		
Experience losses	3	**6**
Loss/(Gain) from change in financial and/or demographic assumptions	28	**(19)**
Benefits paid	(15)	**(16)**
End of year	317	**292**

iv. Movements in the fair value of scheme assets are as follows:

In HK$ million	2016	**2017**
Beginning of year	163	**163**
Contribution from employers	7	**13**
Interest income on scheme assets	3	**2**
Return on scheme assets greater than discount rate	5	**25**
Benefits paid	(15)	**(16)**
End of year	163	**187**

v. Pension cost for defined benefit retirement schemes recognized in the consolidated income statement is as follows:

In HK$ million	2016	**2017**
Net interest cost on net defined benefit retirement schemes liability	2	**2**
Total included in General and administrative expenses – retirement costs for other staff	2	**2**

vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows:

	2016	**2017**
Discount rate	1.20%	**2.00%**
Pension increase rate	3.00%	**3.00%**

Based on the Hong Kong Life Tables released by the Government and upon observing the past experience of the DB Schemes, the Group adopted the Hong Kong Life Tables 2011 with a 3-year age set forward for the year ended December 31, 2016 and the Hong Kong Life Tables 2016 with a 3-year age set forward for the year ended December 31, 2017.

30 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows: *(continued)*

The sensitivity of the defined benefit retirement schemes obligations to changes in the weighted principal assumptions is:

		Impact on defined benefit retirement schemes obligations			
		2016		**2017**	
	Change in assumption	Increase in assumption	Decrease in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.25%**	(3.20%)	3.40%	**(3.00%)**	**3.10%**
Pension increase rate	**0.25%**	3.20%	n/a*	**3.00%**	**n/a***
Mortality	**1 year**	(5.10%)**	5.20%**	**(4.80%)****	**4.90%****

* Certain pension payments of the DB Schemes are subject to a minimum pension increase rate of 3.00% per annum taking into account inflation and other market factors.

** Increase in assumption means the Hong Kong Life Tables with a 4-year age set forward, whereas decrease in assumption means the Hong Kong Life Tables with a 2-year age set forward. Hong Kong Life Tables 2011 are used for 2016 obligation and the Hong Kong Life Tables 2016 are used for 2017 obligations.

The above sensitivity analyzes are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit retirement schemes obligations to significant actuarial assumptions, the same method (the projected unit credit method used to calculate the present value of defined benefit retirement schemes obligations at the end of the reporting period) has been applied as when calculating the pension liability recognized in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

vii. Expected maturity analysis of undiscounted payments of defined benefit retirement schemes as at December 31, 2016 and 2017 is as follows:

In HK$ million			2016		
	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total
Undiscounted payments of defined benefit retirement schemes	15	15	45	299	374

In HK$ million			**2017**		
	Within 1 year	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total**
Undiscounted payments of defined benefit retirement schemes	**15**	**16**	**47**	**303**	**381**

30 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

b. Defined contribution retirement schemes

The Group also operates defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a 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.

Forfeited contributions totaling approximately HK$21 million (2016: approximately HK$19 million) were utilized during the year ended December 31, 2017 to reduce future contributions and no forfeited contribution was available at the end of the reporting period.

31 SHARE-BASED PAYMENT TRANSACTIONS

a. Share option scheme of the Company

The Company operates a share option scheme which was adopted by the shareholders of the Company at the annual general meeting of the Company held on May 8, 2014 (the "2014 Scheme"). Under the 2014 Scheme, the Board shall be entitled to offer to grant a share option to any eligible participant whom the Board may, at its absolute discretion, select. The major terms of the 2014 Scheme are set out below:

i. The purpose of the 2014 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage eligible participants to work towards enhancing the value of the Company and PCCW Shares for the benefit of the Company 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 Group or any member of it, whether in full time or part time employment of the Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the Group or any member of it and any other person whomsoever is determined by the Board as having contributed to the development, growth or benefit of the Group or any member of it or as having spent any material time in or about the promotion of the Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2014 Scheme.

iii. The maximum number of PCCW Shares in respect of which options may be granted under the 2014 Scheme shall not in aggregate exceed 10% of the PCCW 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 PCCW Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Scheme and other share option schemes of the Company must not exceed 30% of the PCCW Shares in issue from time to time.

iv. The total number of PCCW Shares issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2014 Scheme in any 12-month period shall not exceed 1% of the PCCW 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 the Company, or any of their respective associates, the said limit is reduced to 0.1% of the PCCW Shares in issue and HK$5 million in aggregate value based on the closing price of the PCCW 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.

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

a. Share option scheme of the Company *(continued)*

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 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.

vii. The exercise price in relation to each option shall not be less than the higher of (i) the closing price of the PCCW 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 PCCW 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 PCCW Shares on the Stock Exchange.

viii. Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing 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, 2017.

b. Share award schemes of the Company

The Company adopted two 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 Group and to attract suitable personnel for further development of the Group.

Participants of the PCCW Share Award Schemes include any director or employee of the Company and its participating companies.

The PCCW Share Award Schemes are administered by the Board, any committee or sub-committee of the Board and/or any person delegated with the power and authority to administer all or any aspects of the respective PCCW Share Award Schemes (the “Approving Body”) and an independent trustee (the “Trustee”) appointed to hold the relevant PCCW Shares/Share Stapled Units until such time as the PCCW Shares/Share Stapled Units vest in the selected participants.

Pursuant to the scheme rules, no sum of money shall be set aside and no PCCW 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 PCCW Shares/Share Stapled Units administered under the schemes and any other scheme of a similar nature adopted by the Company and/or any of its subsidiaries would represent in excess of 1% of the PCCW Shares in issue and/or 1% of the Share Stapled Units in issue (as the case may be) from time to time, (excluding PCCW Shares/ Share Stapled Units which have been transferred to selected participants on vesting) and provided further that the Approving Body may resolve to increase such limit at its sole discretion.

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

Subject to the relevant scheme rules, each scheme provides that following the making of an award to a selected participant, the relevant PCCW Shares/Share Stapled Units are held in trust for that selected participant and then shall vest over a period of time determined by the Approving Body provided that the selected participant remains at all times up to and including the relevant vesting date (or, as the case may be, each relevant vesting date) an employee or director of the Company or the relevant participating company and satisfies any other conditions specified at the time the award is made, notwithstanding that the Approving Body shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, selected participants are not required to provide any consideration in order to acquire the PCCW Shares/Share Stapled Units awarded to him/her under the schemes.

The Purchase Scheme and the Subscription Scheme expired on November 15, 2012 however the PCCW 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 PCCW Shares, in the future, in respect of which the most recent changes were approved by the Approving Body on February 7, 2018. The Approving Body 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 and Share Stapled Units held under the Purchase Scheme and the Subscription Scheme during the year is as follows:

	Number of PCCW Shares	
	2016	**2017**
The Purchase Scheme:		
Beginning of year	7,563,005	**4,065,694**
Purchase from market by the Trustee at weighted average market price of HK$4.78 (2016: HK$5.08) per PCCW Share	538,000	**3,441,000**
PCCW Shares vested	(4,035,311)*	**(5,087,009)**
End of year	4,065,694	**2,419,685**
The Subscription Scheme:		
Beginning of year	7,493,846	**13,450,426**
Newly issued by the Company at issue price of HK$0.01 per PCCW Share	10,000,000	**–**
PCCW Shares vested	(4,043,420)	**(3,389,545)**
End of year	13,450,426	**10,060,881**

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

	Number of Share Stapled Units	
	2016	**2017**
The Purchase Scheme:		
Beginning of year	194,623	**338,170**
Purchase from market by the Trustee at weighted average market price of HK$10.37 (2016: HK$11.15) per Share Stapled Unit	243,000	**839,000**
Share Stapled Units vested	(99,453)	**(624,184)**
End of year	338,170	**552,986**

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

Details of PCCW Shares and Share Stapled Units awarded pursuant to the Purchase Scheme and the Subscription Scheme during the year and the PCCW Shares and the Share Stapled Units unvested, are as follows:

i. Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award

	2016		**2017**	
	Weighted average fair value on the date of award HK$	Number of PCCW Shares	**Weighted average fair value on the date of award HK$**	**Number of PCCW Shares**
The Purchase Scheme:				
Beginning of year	4.59	6,993,300#	**4.94**	**7,505,823**
Awarded *(note iii)*	5.14	4,546,361	**4.60**	**5,324,103**
Forfeited *(note iv)*	N/A	–	**4.73**	**(1,027,788)**
Vested *(note v)*	4.55	(4,033,838)	**4.85**	**(5,087,009)**
End of year *(note ii)*	4.94	7,505,823	**4.77**	**6,715,129**
The Subscription Scheme:				
Beginning of year	4.81	6,059,227#	**5.12**	**5,298,675**
Awarded *(note iii)*	5.01	3,714,867	**4.60**	**4,163,473**
Forfeited *(note iv)*	4.92	(431,999)	**4.90**	**(405,105)**
Vested *(note v)*	4.57	(4,043,420)	**5.17**	**(3,389,545)**
End of year *(note ii)*	5.12	5,298,675	**4.72**	**5,667,498**

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.

	2016		**2017**	
	Weighted average fair value on the date of award HK$	Number of Share Stapled Units	**Weighted average fair value on the date of award HK$**	**Number of Share Stapled Units**
The Purchase Scheme:				
Beginning of year	9.17	190,293	**10.80**	**1,184,782**
Awarded *(note iii)*	10.92	1,123,994	**10.04**	**1,465,453**
Forfeited *(note iv)*	10.54	(30,052)	**10.23**	**(73,308)**
Vested *(note v)*	9.13	(99,453)	**10.70**	**(624,184)**
End of year *(note ii)*	10.80	1,184,782	**10.28**	**1,952,743**

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

ii. Terms of unvested PCCW Shares and Share Stapled Units at the end of the reporting period

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW Shares 2016	Number of PCCW Shares **2017**
The Purchase Scheme:				
July 5, 2013	July 5, 2013 to July 8, 2017	3.61	1,211,000	**–**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	1,748,462	**–**
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	612,809	**–**
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	904,078	**573,022**
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	1,514,738	**–**
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,514,736	**1,514,736**
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	**2,153,139**
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	**2,474,232**
			7,505,823	**6,715,129**
The Subscription Scheme:				
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	1,719,186	**–**
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	1,788,946	**–**
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,787,499	**1,682,495**
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	**1,522**
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	**1,992,446**
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	**1,991,035**
			5,298,675	**5,667,498**

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2016	Number of Share Stapled Units **2017**
The Purchase Scheme:				
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	81,145	**–**
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	6,581	**–**
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	292,416	**–**
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	291,957	**271,023**
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	256,342	**–**
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	256,341	**256,341**
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	**712,937**
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	**712,442**
			1,184,782	**1,952,743**

The PCCW Shares and Share Stapled Units unvested at December 31, 2017 had a weighted average remaining vesting period of 0.62 year (2016: 0.64 year) and 0.62 year (2016: 0.72 year), respectively.

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

iii. Details of PCCW Shares and Share Stapled Units awarded during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW Shares 2016	Number of PCCW Shares **2017**
The Purchase Scheme:				
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	612,809	**–**
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	904,078	**–**
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	1,514,738	**–**
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,514,736	**–**
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	**2,501,505**
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	**2,822,598**
			4,546,361	**5,324,103**
The Subscription Scheme:				
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	1,856,674	**–**
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,855,149	**–**
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	**–**
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	**2,082,499**
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	**2,080,974**
			3,714,867	**4,163,473**

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2016	Number of Share Stapled Units **2017**
The Purchase Scheme:				
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	305,905	**–**
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	305,406	**–**
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	256,342	**–**
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	256,341	**–**
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	**733,003**
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	**732,450**
			1,123,994	**1,465,453**

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

iv. Details of PCCW Shares and Share Stapled Units forfeited during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW Shares 2016	Number of PCCW Shares **2017**
The Purchase Scheme:				
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	–	**331,056**
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	**348,366**
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	**348,366**
			–	**1,027,788**
The Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	104,346	**–**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	90,901	**–**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	101,374	**80,832**
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	67,728	**39,277**
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	67,650	**105,004**
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	**90,053**
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	**89,939**
			431,999	**405,105**

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2016	Number of Share Stapled Units **2017**
The Purchase Scheme:				
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	3,114	**4,895**
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	13,489	**7,405**
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	13,449	**20,934**
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	**20,066**
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	**20,008**
			30,052	**73,308**

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

v. Details of PCCW Shares and Share Stapled Units vested during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW Shares 2016	Number of PCCW Shares **2017**
The Purchase Scheme:				
July 5, 2013	July 5, 2013 to July 8, 2016	3.61	519,000	**–**
July 5, 2013	July 5, 2013 to July 8, 2017	3.61	–	**1,211,000**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	1,583,499	**–**
November 10, 2014	November 10, 2014 to November 10, 2016	4.95	397,959	**–**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	1,533,380	**–**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	–	**1,748,462**
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	–	**612,809**
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	–	**1,514,738**
			4,033,838	**5,087,009**
The Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	2,312,475	**–**
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	1,730,945	**–**
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	–	**1,638,354**
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	–	**1,749,669**
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	–	**1,522**
			4,043,420	**3,389,545**

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2016	Number of Share Stapled Units **2017**
The Purchase Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	8,594	**–**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	84,277	**–**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	**76,250**
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	6,582	**–**
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	–	**6,581**
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	–	**285,011**
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	–	**256,342**
			99,453	**624,184**

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

The fair values of the PCCW Shares and Share Stapled Units awarded during the year at dates of award are measured by the quoted market price of the PCCW Shares and Share Stapled Units at the respective award dates respectively.

During the year ended December 31, 2017, share-based compensation expenses in respect of the PCCW Shares and Share Stapled Units of HK$53 million (2016: HK$47 million) are recognized in the consolidated income statement and HK$53 million (2016: HK$47 million) are recognized in the employee share-based compensation reserve.

c. Share option schemes of PCPD

The PCPD Group operates a share option scheme which was adopted by the shareholders of PCPD at the annual general meeting of PCPD held on May 6, 2015 and became effective on May 7, 2015, following its approval by the shareholders of the Company (the "2015 PCPD Scheme"). The 2015 PCPD Scheme is valid and effective for a period of 10 years commencing on May 7, 2015.

Under the 2015 PCPD Scheme, the board of directors of PCPD may, at its discretion, grant share options to any eligible person to subscribe for shares in PCPD subject to the terms and conditions stipulated therein. The exercise price of the options under the 2015 PCPD Scheme is determined by the board of directors of PCPD at its absolute discretion but in any event shall not be less than the higher of (i) the closing price of the shares of PCPD as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the shares of PCPD as stated in the daily quotation sheet of the Stock Exchange for the last 5 days preceding the date of grant on which days it has been possible to trade shares of PCPD on the Stock Exchange. The overall limit on the number of shares of PCPD which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 PCPD Scheme and any other share option schemes of PCPD must not exceed 30% of the shares of PCPD in issue from time to time. In addition, the maximum number of shares of PCPD in respect of which options may be granted under the 2015 PCPD Scheme shall not (when aggregated with any shares of PCPD subject to any grants made after May 7, 2015 pursuant to any other share option schemes of PCPD) exceed the limit of 10% of the issued share capital of PCPD on May 7, 2015 (or some other date if renewal of this limit is approved by the shareholders of PCPD). The maximum entitlement of any eligible person (other than a substantial shareholder or an independent non-executive director of PCPD, or any of their respective associates) under the 2015 PCPD Scheme is the total number of shares of PCPD issued and to be issued upon exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant up to a maximum of 1% of the shares of PCPD in issue at the relevant time. Any further grant of share options in excess of this limit is subject to approval of the shareholders of PCPD at a general meeting.

No share options have been granted or exercised under the 2015 PCPD Scheme during the years ended December 31, 2016 and 2017. There are no share options outstanding as at December 31, 2016 and 2017.

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT

i. Share Stapled Units option scheme of HKT Trust and HKT

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

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

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

(iii) (1) Notwithstanding any other provisions of the HKT 2011-2021 Option Scheme, no options may be granted under the HKT 2011-2021 Option Scheme if the exercise of the options may result in the Company 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).

(2) Subject to the further limitation in (1) above, as required by the Listing Rules, the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 unless the approval of holders of Share Stapled Units has been obtained.

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

(iv) 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 HKT, or any of their respective associates) under the HKT 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the HKT 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 HKT, 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.

(v) The HKT 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 HKT 2011-2021 Option Scheme shall be determined by the Trustee-Manager Board and the HKT Board, provided that such terms and conditions shall not be inconsistent with the HKT 2011-2021 Option Scheme and no option may be exercised 10 years after the date of grant.

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT *(continued)*

i. Share Stapled Units option scheme of HKT Trust and HKT *(continued)*

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

(vii) The subscription price for Share Stapled Units in respect of any particular option shall not be less than the highest of (1) 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; (2) 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 (3) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.

(viii) Subject to the early termination by an ordinary resolution in general meeting of registered holders of Share Stapled Units or resolutions of the HKT Board and the Trustee-Manager Board, the HKT 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 HKT 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 HKT 2011-2021 Option Scheme since its adoption and up to and including December 31, 2017.

ii. Share Stapled Units award schemes of HKT

On October 11, 2011, HKT 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, in respect of which the most recent changes were approved by the HKT Approving Body (as defined below) on February 6, 2018 (collectively the "HKT Share Stapled Units Award Schemes"). The purposes of the HKT Share Stapled Units Award Schemes are to incentivize and reward participants for their contribution to the growth of HKT and its subsidiaries (collectively 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 participants.

Participants of the HKT Share Stapled Units Award Schemes include any director or employee of HKT or any of its subsidiaries.

The HKT Share Stapled Units Award Schemes are administered by the HKT Board, any committee or sub-committee of the HKT Board and/or any person delegated with the power and authority to administer all or any aspects of the respective HKT Share Stapled Units Award Schemes (the "HKT Approving Body") and an independent trustee (the "HKT Trustee") appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants.

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT *(continued)*

ii. Share Stapled Units award schemes of HKT *(continued)*

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 HKT 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 selected 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 HKT Trustee for the purpose of making such a subscription if:

(i) as a result of such subscription, the Company'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 HKT 2011-2021 Option Scheme, and all other rights or entitlements granted by HKT 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) HKT does not have a relevant general mandate or specific mandate from holders of the Share Stapled Units necessary to effect the allotment and issue of Share Stapled Units pursuant to the scheme.

Subject to the relevant scheme rules, each scheme provides that following the making of an award to a selected participant, the relevant Share Stapled Units are held in trust for that selected participant and then shall vest over a period of time determined by the HKT Approving Body provided that the selected participant remains at all times up to and including the relevant vesting date (or, as the case may be, each relevant vesting date) an employee or director of the HKT Limited Group and satisfies any other conditions specified at the time the award is made, notwithstanding that the HKT Approving Body shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, selected participants are not required to provide any consideration in order to acquire the Share Stapled Units awarded to him/her under the schemes.

The HKT 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 HKT Approving Body may also by resolution terminate the operation of the schemes at any time subject to the terms of the schemes.

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, 2017.

A summary of movements in Share Stapled Units held under the HKT Share Stapled Units Purchase Scheme during the year is as follows:

	Number of Share Stapled Units 2016	**2017**
Beginning of year	9,596,941	**5,197,383**
Purchase from market by the HKT Trustee at weighted average market price of HK$10.44 (2016: HK$9.92) per Share Stapled Unit	–	**540,000**
Share Stapled Units vested	(4,399,558)*	**(4,647,596)**
End of year	5,197,383	**1,089,787**

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

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT *(continued)*

ii. Share Stapled Units award schemes of HKT *(continued)*

Details of Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the Share Stapled Units unvested, are as follows:

(i) Movements in the number of unvested Share Stapled Units and their related weighted average fair value on date of award

	2016		**2017**	
	Weighted average fair value on the date of award HK$	Number of Share Stapled Units	**Weighted average fair value on the date of award HK$**	**Number of Share Stapled Units**
Beginning of year	9.27	8,155,710	**9.93**	**5,764,257**
Awarded *(note (iii))*	10.89	2,160,944	**10.04**	**2,392,160**
Forfeited *(note (iv))*	9.57	(154,141)	**10.01**	**(119,259)**
Vested *(note (v))*	9.19	(4,398,256)	**9.72**	**(4,647,596)**
End of year *(note (ii))*	9.93	5,764,257	**10.30**	**3,389,562**

(ii) Terms of unvested Share Stapled Units at the end of the reporting period

			Number of Share Stapled Units	
Date of award	Vesting period	Fair value on the date of award HK$	2016	**2017**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	2,881,371	**–**
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	1,215	**–**
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	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	**613,158**
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	**426,187**
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	**1,175,589**
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	**1,174,628**
			5,764,257	**3,389,562**

The Share Stapled Units unvested as at December 31, 2017 had a weighted average remaining vesting period of 0.60 year (2016: 0.45 year).

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT *(continued)*

ii. Share Stapled Units award schemes of HKT *(continued)*

(iii) Details of Share Stapled Units awarded during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2016	Number of Share Stapled Units **2017**
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	**–**
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	**1,196,587**
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	**1,195,573**
			2,160,944	**2,392,160**

(iv) Details of Share Stapled Units forfeited during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2016	Number of Share Stapled Units **2017**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	8,772	**–**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	23,200	**–**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	67,450	**33,202**
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	–	**333**
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	7,665	**–**
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	18,466	**7,148**
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	14,312	**10,297**
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	14,276	**26,336**
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	**20,998**
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	**20,945**
			154,141	**119,259**

d. Equity compensation benefit of HKT Trust and HKT *(continued)*

ii. Share Stapled Units award schemes of HKT *(continued)*

(v) Details of Share Stapled Units vested during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2016	**2017**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	709,786	**–**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	2,926,276	**–**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	**2,848,169**
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	–	**882**
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	760,979	**–**
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	–	**742,167**
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	–	**630,191**
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	–	**426,187**
			4,398,256	**4,647,596**

The fair values 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, 2017, share-based compensation expenses in respect of the Share Stapled Units of HK$25 million (2016: HK$33 million) are recognized in the consolidated income statement, HK$14 million (2016: HK$21 million) are recognized in the employee share-based compensation reserve and HK$11 million (2016: HK$12 million) are recognized in the non-controlling interests.

e. Share-based payment transactions with cash alternatives

i. On May 23, 2013, the PCPD Group entered into the supporting agreement with an affiliated company of the seller of a plot of land in Jakarta, Indonesia (the "Supporter") under which the PCPD Group will settle part of the supporting services received for the value of US$23 million (subject to certain downward adjustments) by means of issuing non-voting, non-contributory but dividend participating class B shares that represent not more than 6.388% (subject to certain downward adjustments) of the share capital in an indirect wholly-owned subsidiary of PCPD ("Melati") (the "Supporter Shares") and by assignment of the shareholder's loan to Melati (the "Supporter Shareholder's Loans").

In addition, the PCPD Group granted to the Supporter a right (but not an obligation) to require the PCPD Group, after the expiry of 5 years from the date on which the Supporter Shares are issued and the Supporter Shareholder's Loans assigned, to purchase from the Supporter all (but not part) of the Supporter Shares and to take assignment of all the then outstanding Supporter Shareholder's Loans (the "Supporter Put Option"). The Supporter Put Option is granted at no premium.

When the consolidated net asset value of Melati is positive, the Supporter Shareholder's Loans are to be assigned at the face amount and the Supporter Shares are to be issued at its corresponding portion of the consolidated net asset value of Melati; or when the consolidated net asset value of Melati is negative, the Supporter Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Melati, and the Supporter Shares are to be issued at nominal value of US$1.

A financial liability would be recognized in the consolidated statement of financial position in relation to the Supporter Put Option until the exercise of the Supporter Put Option by the Supporter. PCPD management considered the fair value of the Supporter Shares is positively correlated to the consolidated net asset value of Melati which is minimal as at December 31, 2017, therefore the fair value of the Supporter Shares is nil (2016: nil).

31 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

e. Share-based payment transactions with cash alternatives *(continued)*

ii. On May 23, 2013, the PCPD Group entered into the investor subscription agreement and the investor loan purchase agreement with an independent third party (the "Investor"), the PCPD Group will allot to the Investor 9.99% shares of an indirect wholly-owned subsidiary of PCPD ("Rafflesia") (the "Investor Shares") and assign to the Investor 9.99% of all the unsecured and non-interest bearing shareholder's loan to Rafflesia (the "Investor Shareholder's Loans") at the time when the occupation permit of the premium Grade A office building in Jakarta, Indonesia is issued. This arrangement will allow the Investor to have 9.99% of the PCPD Group's Indonesian development project at a consideration of an amount which represents the same percentage (9.99%) of the total investment cost incurred by the PCPD Group in the Indonesian development project plus finance charge from the completion date of the land acquisition to the time the shares are subscribed.

In addition, the PCPD Group granted to the Investor a right (but not an obligation) to require the PCPD Group, at any time on or after May 23, 2023, to purchase from the Investor all (but not part) of the Investor Shares and to take assignment of all the then outstanding Investor Shareholder's Loans (the "Investor Put Option"). The Investor Put Option enables a structure which allows the Investor to realize its investment and prevents unknown parties from becoming a stakeholder in Rafflesia, so far as practicable. The Investor Put Option is granted at no premium.

When the consolidated net asset value of Rafflesia is positive, Investor Shareholder's Loans are to be assigned at the face amount and the Investor Shares are to be issued at its corresponding portion of the consolidated net asset value of Rafflesia; or when the consolidated net asset value of Rafflesia is negative, the Investor Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Rafflesia (in case of any shortfall after the deduction), the Investor is required to settle the shortfall. The Investor Shares are to be issued at nominal value of US$1.

PCPD management considered the fair value of the Investor Shares is positively correlated to the consolidated net asset value of Rafflesia which is minimal as at December 31, 2017, therefore the fair value of the Investor Shares is nil (2016: nil).

32 RESERVES

In HK$ million	2016								
	Special capital reserve *(note (a))*	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserves	(Accumulated losses)/ Retained profits	Total
THE GROUP									
At January 1, 2016	2,844	(35)	83	(950)	(132)	288	(113)	(3,466)	(1,481)
Total comprehensive income/(loss) for the year									
Profit for the year	–	–	–	–	–	–	–	2,051	2,051
Other comprehensive income/(loss)									
Items that will not be reclassified subsequently to consolidated income statement:									
Remeasurements of defined benefit retirement schemes obligations	–	–	–	–	–	–	–	(26)	(26)
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:									
Exchange differences on translating foreign operations	–	–	–	(135)	–	–	–	–	(135)
Available-for-sale financial assets:									
– changes in fair value	–	–	–	–	–	(6)	–	–	(6)
– transfer to consolidated income statement on impairment	–	–	–	–	–	(4)	–	–	(4)
Cash flow hedges:									
– effective portion of changes in fair value	–	–	–	–	525	–	–	–	525
– transfer from equity to consolidated income statement	–	–	–	–	29	–	–	–	29
Total comprehensive income/(loss) for the year	–	–	–	(135)	554	(10)	–	2,025	2,434
Transactions with equity holders									
Purchases of PCCW Shares under share award scheme	–	(3)	–	–	–	–	–	–	(3)
Purchases of Share Stapled Units under share award schemes	–	–	–	–	–	–	–	(3)	(3)
Employee share-based compensation	–	–	68	–	–	–	–	–	68
Vesting of PCCW Shares and Share Stapled Units under share award schemes	–	20	(66)	–	–	–	–	34	(12)
Distribution for Share Stapled Units granted under share award schemes	–	–	(2)	–	–	–	–	(1)	(3)
Dividend paid in respect of previous year	(1,298)	–	(1)	–	–	–	–	–	(1,299)
Dividend declared and paid in respect of the current year	(628)	–	(1)	–	–	–	–	–	(629)
Total transactions with equity holders	(1,926)	17	(2)	–	–	–	–	30	(1,881)
At December 31, 2016	918	(18)	81	(1,085)	422	278	(113)	(1,411)	(928)

32 RESERVES *(CONTINUED)*

In HK$ million	2016				
	Special capital reserve *(note (a))*	Employee share-based compensation reserve	Hedging reserve	Retained profits	Total
THE COMPANY					
At January 1, 2016	2,829	20	(32)	15,631	18,448
Total comprehensive income for the year					
Profit for the year	–	–	–	2,323	2,323
Other comprehensive income					
Items that have been reclassified or may be reclassified subsequently to income statement:					
Cash flow hedges:					
– effective portion of changes in fair value	–	–	77	–	77
Total comprehensive income for the year	–	–	77	2,323	2,400
Transactions with equity holders					
Dividend paid in respect of previous year	(1,299)	–	–	–	(1,299)
Dividend declared and paid in respect of the current year	(629)	–	–	–	(629)
Total transactions with equity holders	(1,928)	–	–	–	(1,928)
At December 31, 2016	901	20	45	17,954	18,920

32 RESERVES *(CONTINUED)*

In HK$ million	Special capital reserve *(note (a))*	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserves	(Accumulated losses)/ Retained profits	Total
					2017				
THE GROUP									
At January 1, 2017	918	(18)	81	(1,085)	422	278	(113)	(1,411)	(928)
Total comprehensive income/(loss) for the year									
Profit for the year	–	–	–	–	–	–	–	2,246	2,246
Other comprehensive income/(loss)									
Items that will not be reclassified subsequently to consolidated income statement:									
Remeasurements of defined benefit retirement schemes obligations	–	–	–	–	–	–	–	38	38
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:									
Translation exchange differences:									
– exchange differences on translating foreign operations	–	–	–	234	–	–	–	–	234
– reclassification of currency translation reserve on disposal of subsidiaries	–	–	–	172	–	–	–	–	172
Available-for-sale financial assets:									
– changes in fair value	–	–	–	–	–	106	–	–	106
– transfer to consolidated income statement on disposal	–	–	–	–	–	(9)	–	–	(9)
Cash flow hedges:									
– effective portion of changes in fair value	–	–	–	–	(222)	–	–	–	(222)
– transfer from equity to consolidated income statement	–	–	–	–	(181)	–	–	–	(181)
Total comprehensive income/(loss) for the year	–	–	–	406	(403)	97	–	2,284	2,384
Transactions with equity holders									
Purchases of PCCW Shares under share award scheme	–	(16)	–	–	–	–	–	–	(16)
Purchases of Share Stapled Units under share award schemes	–	–	–	–	–	–	–	(10)	(10)
Employee share-based compensation	–	–	67	–	–	–	–	–	67
Vesting of PCCW Shares and Share Stapled Units under share award schemes	–	25	(66)	–	–	–	–	34	(7)
Distribution for Share Stapled Units granted under share award schemes	–	–	(2)	–	–	–	–	(1)	(3)
Dividend paid in respect of previous year	(918)	–	(4)	–	–	–	–	(635)	(1,557)
Dividend declared and paid in respect of the current year	–	–	(1)	–	–	–	–	(661)	(662)
Total contributions by and distributions to equity holders	(918)	9	(6)	–	–	–	–	(1,273)	(2,188)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	–	–	–	–	–	7,719	7,719
Total transactions with equity holders	(918)	9	(6)	–	–	–	–	6,446	5,531
At December 31, 2017	–	(9)	75	(679)	19	375	(113)	7,319	6,987

32 RESERVES *(CONTINUED)*

In HK$ million	2017				
	Special capital reserve *(note (a))*	Employee share-based compensation reserve	Hedging reserve	Retained profits	Total
THE COMPANY					
At January 1, 2017	901	20	45	17,954	18,920
Total comprehensive income for the year					
Profit for the year	–	–	–	2,269	2,269
Other comprehensive income					
Items that have been reclassified or may be reclassified subsequently to income statement:					
Cash flow hedges:					
– effective portion of changes in fair value	–	–	(57)	–	(57)
Total comprehensive income for the year	–	–	(57)	2,269	2,212
Transactions with equity holders					
Dividend paid in respect of previous year	(901)	–	–	(656)	(1,557)
Dividend declared and paid in respect of the current year	–	–	–	(662)	(662)
Total transactions with equity holders	(901)	–	–	(1,318)	(2,219)
At December 31, 2017	–	20	(12)	18,905	18,913

32 RESERVES *(CONTINUED)*

a. The special capital reserve was created as a result of a capital reduction in 2004 where the Company applied its entire share premium balance to eliminate accumulated losses as at June 30, 2004. The special capital reserve was not treated as realized profit and (for so long as the Company remains a listed company) was treated as an undistributable reserve for the purposes of section 79C of the predecessor Hong Kong Companies Ordinance (Cap. 32).

On January 10, 2006, the High Court of Hong Kong (the "High Court") made an order which permitted the Company to distribute dividend out of the special capital reserve providing that the Company setting aside sums totaling approximately US$544 million (approximately HK$4,243 million) and HK$106 million for the sole purpose of discharging certain debts or liabilities of the Company existing at the date of the capital reduction, principally being the aggregate amount of principal, accrued interest and redemption premium payable on maturity of the US$450 million 1% guaranteed convertible bonds due 2007 issued by PCCW Capital No. 2 Limited (dissolved on December 19, 2013). Those amounts were set aside by then, and the High Court order thereby became effective, on March 27, 2006.

As at December 31, 2017, the special capital reserve has been fully distributed as dividend in accordance with the above. The Company has total distributable reserves of HK$18,905 million as at December 31, 2017 (2016: HK$18,855 million).

As at December 31, 2017, there was no cash (2016: nil) set aside and recorded under "Restricted cash" in the statement of financial position of the Company in this regard.

33 DEFERRED INCOME TAX

a. Movement in deferred income tax liabilities/(assets) during the year is as follows:

In HK$ million	2016					
	Accelerated tax depreciation and amortization	Valuation adjustment resulting from acquisition of subsidiaries	Revaluation of properties	Tax losses	Others	Total
Beginning of year	2,539	308	(1)	(1,145)	8	1,709
Charged/(Credited) to consolidated income statement *(note 12(a))*	169	(37)	–	(318)	(8)	(194)
Exchange differences	–	–	–	3	–	3
Transferred to disposal group classified as held for sale *(note 25(h))*	–	–	–	264	–	264
End of year	2,708	271	(1)	(1,196)	–	1,782

In HK$ million	**2017**					
	Accelerated tax depreciation and amortization	**Valuation adjustment resulting from acquisition of subsidiaries**	**Revaluation of properties**	**Tax losses**	**Others**	**Total**
Beginning of year	**2,708**	**271**	**(1)**	**(1,196)**	**–**	**1,782**
Charged/(Credited) to consolidated income statement *(note 12(a))*	**433**	**(36)**	**–**	**(155)**	**–**	**242**
Exchange differences	**–**	**2**	**–**	**(6)**	**–**	**(4)**
End of year	**3,141**	**237**	**(1)**	**(1,357)**	**–**	**2,020**

33 DEFERRED INCOME TAX *(CONTINUED)*

a. Movement in deferred income tax liabilities/(assets) during the year is as follows: *(continued)*

In HK$ million	2016	**2017**
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	(1,086)	**(1,119)**
Deferred income tax assets to be recovered within 12 months	(48)	**(94)**
Net deferred income tax assets recognized in the consolidated statement of financial position	(1,134)	**(1,213)**
Deferred income tax liabilities:		
Deferred income tax liabilities to be recovered after more than 12 months	2,702	**3,005**
Deferred income tax liabilities to be recovered within 12 months	214	**228**
Net deferred income tax liabilities recognized in the consolidated statement of financial position	2,916	**3,233**
	1,782	**2,020**

b. Deferred income tax assets have been recognized for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable. For the year ended December 31, 2016, recognition of tax losses included HK$264 million, which have been transferred to disposal group classified as held for sale (note 25(h)). As at December 31, 2017, the Group had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$7,354 million (2016: HK$7,988 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$81 million (2016: HK$55 million) and HK$447 million (2016: HK$700 million) will expire within 1 to 5 years and after 5 years from December 31, 2017 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

34 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2017, the Group had carrier licence fee liabilities payable as follows:

In HK$ million	2016			**2017**		
	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	173	7	180	**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	**257**	**75**	**332**
– over five years	109	41	150	**75**	**25**	**100**
	717	179	896	**628**	**126**	**754**
Less: Amounts payable within one year included under current liabilities	(173)	(7)	(180)	**(173)**	**(7)**	**(180)**
Non-current portion	544	172	716	**455**	**119**	**574**

35 OTHER LONG-TERM LIABILITIES

Included in "Other long-term liabilities" is a liability of HK$811 million arising from the issuance of the OTT Preference Shares during the year ended December 31, 2017 as described below.

On September 25, 2017, the Group issued and allotted to three investors an aggregate of 11,000,000 series A convertible redeemable voting preference shares of a par value of US$1.00 each (the "OTT Preference Shares") in the capital of a then indirect wholly-owned subsidiary of the Company, representing approximately 18% of its enlarged issued share capital, for a total consideration of US$110 million (equivalent to approximately HK$859 million). The OTT Preference Shares are redeemable at the original subscription price, at the earliest on September 25, 2022, if certain contingent event has not occurred by then. The OTT Preference Shares are entitled to discretionary dividends and also have certain preference in liquidation or upon an initial public offering or sale of business.

The OTT Preference Shares contain a liability and an equity component, and are accordingly treated as a compound financial instrument. The liability component further contains embedded derivatives ("OTT Preference Shares Derivative"), which are accounted for as derivative financial instruments in accordance with the accounting policy set out in note 2(n), and a host liability ("OTT Preference Shares Liability"), which is recorded as "Other long-term liabilities" in the consolidated statement of financial position on an amortized cost basis until being extinguished on conversion or redemption. The valuation of the OTT Preference Shares Derivative and the OTT Preference Shares Liability on the date of issuance of the OTT Preference Shares was HK$33 million and HK$808 million respectively.

The subsidiary also granted an option ("OTT Preference Shares Option") to one of the investors to subscribe for up to a further 2,000,000 OTT Preference Shares at an exercise price of US$10.00 per option share. The OTT Preference Shares Option is exercisable on or before the option expiry date within nine months of the issuance of the OTT Preference Shares. Accordingly, the Group recognized a derivative financial instrument of HK$18 million, in accordance with the accounting policy set out in note 2(n), on the date of issuance of the OTT Preference Shares.

During the year ended December 31, 2017, the Group has recognized a finance cost on the OTT Preference Shares Liability of HK$3 million, and fair value gains of HK$4 million and HK$3 million on the OTT Preference Shares Derivative and the OTT Preference Shares Option in "Other gains, net" in the consolidated income statement, respectively.

Refer to note 28 for details of the derivative financial instruments.

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	2016	**2017**
Profit before income tax	4,227	**5,734**
Adjustment for:		
Interest income	(52)	**(134)**
Finance costs	1,429	**1,526**
Gain on disposal of subsidiaries	–	**(1,236)**
Fair value gains on investment properties	(2)	**–**
Net gains on fair value hedging instruments	(4)	**–**
Fair value movement of derivative financial instruments	60	**(1)**
Provision for impairment of available-for-sale financial assets	19	**–**
Net realized gains on disposal of available-for-sale financial assets	(106)	**(68)**
Dividend income from available-for-sale financial assets	–	**(38)**
Provision for impairment of interests in associates	–	**154**
Recovery of provision for impairment of an interests in a joint venture	–	**(5)**
(Gain)/loss on disposal of property, plant and equipment, net	(3)	**12**
Impairment loss for doubtful debts	337	**288**
Provision for inventory obsolescence	4	**16**
Depreciation of property, plant and equipment	1,774	**1,642**
Amortization of land lease premium – interests in leasehold land	20	**18**
Amortization of intangible assets	4,908	**5,068**
Share of results of associates and joint ventures	(45)	**(54)**
Increase in treasury stock for the purchases of PCCW Shares under share award scheme	(3)	**(16)**
Decrease in equity for the purchases of Share Stapled Units under share award schemes	(3)	**(14)**
Share-based compensation expenses	80	**78**
Pension cost for defined benefit retirement schemes	2	**2**
(Increase)/Decrease in operating assets		
– properties held for/under development	(42)	**(190)**
– sales proceeds held in stakeholders' accounts	3	**2**
– restricted cash	(33)	**(10)**
– prepayments, deposits and other current assets	(2,102)	**(606)**
– inventories	(116)	**26**
– amounts due from related companies	3	**13**
– trade receivables	(150)	**(172)**
– other non-current assets	(106)	**(122)**
Increase/(Decrease) in operating liabilities		
– trade payables, accruals and other payables and deferred income	539	**274**
– amount payable to the Government under the Cyberport Project Agreement	(1)	**–**
– amounts due to related companies	(50)	**(34)**
– advances from customers	(7)	**428**
– defined benefit retirement schemes liability	(7)	**(13)**
– other long-term liabilities	(31)	**(8)**
CASH GENERATED FROM OPERATIONS	10,542	**12,560**
Interest received	22	**85**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(523)	**(696)**
– overseas profits tax paid	(88)	**(86)**
NET CASH GENERATED FROM OPERATING ACTIVITIES	9,953	**11,863**

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Movements of financial liabilities arising from financing activities

Movements of financial liabilities arising from financing activities for the year ended December 31, 2017 are as follows:

In HK$ million	2017						
	Prepaid finance costs (included in prepayments, deposits and other current assets)	Short-term borrowings	Interest payable (including in accruals and other payables)	Long-term borrowings	Derivative financial instruments, net	OTT Preference Shares Liability (included in other long-term liabilities)	Total
As at January 1, 2017	(70)	457	214	45,131	(191)	–	45,541
Cash flows in financing activities							
New borrowings raised, net	–	594	–	9,718	–	–	10,312
Finance costs (paid)/received	(7)	–	(1,017)	(172)	33	–	(1,163)
Repayments of borrowings	–	(465)	–	(8,693)	–	–	(9,158)
Proceeds from issuance of preference shares of a subsidiary	–	–	–	–	51	808	859
Classified as cash flows in investng activities							
Purchase of a foreign currency option	–	–	–	–	(8)	–	(8)
Loan repayment in relation to licence fee *(note 38(b)(i))*	–	–	–	(130)	–	–	(130)
Non-cash movements	63	36	1,100	759	186	3	2,147
As at December 31, 2017	(14)	622	297	46,613	71	811	48,400

c. Analysis of cash and cash equivalents

In HK$ million	2016	**2017**
Total cash and bank balances	5,349	**13,416**
Less: short-term deposits	(453)	**(1,629)**
Less: restricted cash	(139)	**(149)**
Less: balances included in disposal group classified as held for sale *(note 25(h))*	(6)	**–**
Cash and cash equivalents as at December 31,	4,751	**11,638**

37 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("Adjusted Capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises share capital, special capital reserve, treasury stock, employee share-based compensation reserve, currency translation reserve, hedging reserve, available-for-sale financial assets reserve and other reserves.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by the Bermuda Monetary Authority. A subsidiary of the Group also has a minimum capital requirement as a condition for a stored value facilities licence granted by the Hong Kong Monetary Authority.

38 FINANCIAL INSTRUMENTS

The tables below analyze financial instruments by category:

In HK$ million	2016			
	Financial assets at amortized cost	Derivatives used for hedging	Available-for-sale financial assets	Total
Non-current assets				
Available-for-sale financial assets	–	–	1,057	1,057
Derivative financial instruments*	–	289	–	289
Other non-current assets	157	–	–	157
	157	289	1,057	1,503
Current assets				
Sale proceeds held in stakeholders' accounts	510	–	–	510
Restricted cash	139	–	–	139
Prepayments, deposits and other current assets (excluding prepayments)	7,112	–	–	7,112
Amounts due from related companies	98	–	–	98
Trade receivables, net	3,778	–	–	3,778
Short-term deposits	453	–	–	453
Cash and cash equivalents	4,751	–	–	4,751
	16,841	–	–	16,841
Total	16,998	289	1,057	18,344

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	2016		
	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Short-term borrowings	–	457	457
Trade payables	–	2,731	2,731
Accruals and other payables	–	6,844	6,844
Amount payable to the Government under the Cyberport Project Agreement	–	321	321
Carrier licence fee liabilities	–	173	173
Amounts due to related companies	–	35	35
	–	10,561	10,561
Non-current liabilities			
Long-term borrowings	–	45,131	45,131
Derivative financial instruments	98	–	98
Carrier licence fee liabilities	–	544	544
Other long-term liabilities	–	808	808
	98	46,483	46,581
Total	98	57,044	57,142

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	2017				
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale financial assets	Total
Non-current assets					
Available-for-sale financial assets	–	–	–	2,021	2,021
Derivative financial instruments*	–	–	225	–	225
Other non-current assets	137	–	–	–	137
	137	–	225	2,021	2,383
Current assets					
Sale proceeds held in stakeholders' accounts	508	–	–	–	508
Restricted cash	149	–	–	–	149
Prepayments, deposits and other current assets (excluding prepayments)	7,791	–	–	–	7,791
Amounts due from related companies	86	–	–	–	86
Derivative financial instruments	–	1	–	–	1
Other financial assets	–	79	–	–	79
Trade receivables, net	3,664	–	–	–	3,664
Short-term deposits	1,629	–	–	–	1,629
Cash and cash equivalents	11,638	–	–	–	11,638
	25,465	80	–	–	25,545
Total	25,602	80	225	2,021	27,928

* As at December 31, 2017, derivative financial instruments of HK$10 million (2016: HK$49 million) related to foreign exchange forward contracts with an aggregate notional contract amount of US$503 million (approximately HK$3,887 million) were designated as cash flow hedges of US$300 million and US$100 million zero coupon guaranteed notes due 2030 respectively. The US$300 million guaranteed notes and the US$100 million guaranteed notes may be redeemed at the option of the Group on January 15, 2020 and May 20, 2020 at an early redemption amount of approximately US$376 million and US$128 million respectively. Refer to notes 26(c) and 26(f) and note 28(c) for details of the guaranteed notes and the foreign exchange forward contracts respectively.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	2017			
	Derivatives used for hedging	**Derivatives at fair value through profit or loss**	**Other financial liabilities at amortized cost**	**Total**
Current liabilities				
Short-term borrowings	–	–	622	622
Trade payables	–	–	2,088	2,088
Accruals and other payables	–	–	7,565	7,565
Amount payable to the Government under the Cyberport Project Agreement	–	–	321	321
Derivative financial instruments	–	15	–	15
Carrier licence fee liabilities	–	–	173	173
Amounts due to related companies	–	–	1	1
	–	15	10,770	10,785
Non-current liabilities				
Long-term borrowings	–	–	46,613	46,613
Derivative financial instruments	253	29	–	282
Carrier licence fee liabilities	–	–	455	455
Other long-term liabilities	–	–	1,811	1,811
	253	29	48,879	49,161
Total	253	44	59,649	59,946

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

Exposure to credit, liquidity, and market risk (including foreign currency risk and interest rate risk) arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposure to these risks is controlled by the Group's financial management policies and practices described below.

a. Credit risk

The Group's credit risk is primarily attributable to trade receivables, amounts due from related companies, interest receivable, foreign exchange and swap contracts and cash transactions entered into for risk and cash management purposes. Management has policies in place and exposure 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 Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue balances are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2016 and 2017, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 25(e).

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, provision for impairment loss is made for estimated irrecoverable amounts. As at December 31, 2016 and 2017, the amounts due from related companies and other receivables were fully performing.

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Group as disclosed in note 40, the Group does not provide any other guarantees which would expose the Group to credit risk.

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient cash and committed facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries in the normal course of their businesses. Refer to note 40 for details.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

In HK$ million	2016					
	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 outflow	Carrying amount
Current liabilities						
Short-term borrowings	(479)	–	–	–	(479)	(457)
Trade payables	(2,731)	–	–	–	(2,731)	(2,731)
Accruals and other payables	(6,844)	–	–	–	(6,844)	(6,844)
Amount payable to the Government under the Cyberport Project Agreement	(321)	–	–	–	(321)	(321)
Carrier licence fee liabilities	(180)	–	–	–	(180)	(173)
Amounts due to related companies	(35)	–	–	–	(35)	(35)
	(10,590)	–	–	–	(10,590)	(10,561)
Non-current liabilities						
Long-term borrowings *(note i)*	(991)	(2,166)	(26,193)	(25,219)	(54,569)	(45,131)
Derivative financial instruments	(33)	(51)	(199)	219	(64)	(98)
Carrier licence fee liabilities	–	(142)	(424)	(150)	(716)	(544)
Other long-term liabilities *(note ii)*	(82)	(59)	(29)	(1,255)	(1,425)	(808)
	(1,106)	(2,418)	(26,845)	(26,405)	(56,774)	(46,581)
Total	(11,696)	(2,418)	(26,845)	(26,405)	(67,364)	(57,142)

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	2017					
	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 outflow	Carrying amount
Current liabilities						
Short-term borrowings	(624)	–	–	–	(624)	(622)
Trade payables	(2,088)	–	–	–	(2,088)	(2,088)
Accruals and other payables	(7,565)	–	–	–	(7,565)	(7,565)
Amount payable to the Government under the Cyberport Project Agreement	(321)	–	–	–	(321)	(321)
Derivative financial instruments	–	–	–	–	–	(15)
Carrier licence fee liabilities	(180)	–	–	–	(180)	(173)
Amounts due to related companies	(1)	–	–	–	(1)	(1)
	(10,779)	–	–	–	(10,779)	(10,785)
Non-current liabilities						
Long-term borrowings *(note i)*	(1,273)	(10,539)	(21,631)	(22,798)	(56,241)	(46,613)
Derivative financial instruments	2	(16)	(116)	(172)	(302)	(282)
Carrier licence fee liabilities	–	(142)	(332)	(100)	(574)	(455)
Other long-term liabilities *(note ii)*	(15)	(73)	(912)	(1,264)	(2,264)	(1,811)
	(1,286)	(10,770)	(22,991)	(24,334)	(59,381)	(49,161)
Total	(12,065)	(10,770)	(22,991)	(24,334)	(70,160)	(59,946)

i. As at December 31, 2017, bank borrowings of HK$1,820 million (2016: HK$1,950 million) included in long-term borrowings were drawn for financing a 15-year 3G spectrum utilization fee paid upfront by the Group.

ii. As at December 31, 2017, other long-term liabilities included HK$164 million (2016: HK$102 million) of long-term interest payable, which relate 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 a notional contract amount of EUR200 million (approximately HK$1,665 million) (2016: EUR200 million (approximately HK$1,665 million)). Please refer to notes 26(e) and 28(c) for details of the guaranteed notes and the fixed-to-fixed cross currency swap contract respectively.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts, interest rate swap contracts, foreign exchange forward contracts, foreign currency option and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire high market risk instruments for trading purposes.

The Group determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

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

In the normal course of business, the Group uses the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

i. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposure. Foreign currency risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the functional currency of the relevant group entity.

Majority of the Group's borrowings are denominated in the Hong Kong dollar, United States dollar or Euro. As at December 31, 2016 and 2017, majority of the Group's borrowings denominated in United States dollar/Euro were swapped into Hong Kong dollars by cross currency swap contracts and foreign exchange forward contracts. Given this, management does not expect that there will be any significant foreign currency risk associated with the Group's borrowings. Cross currency swap contracts and foreign exchange forward contracts outstanding as at December 31, 2017 with an aggregate notional contract amount of US$2,553 million (approximately HK$19,787 million) (2016: US$2,553 million (approximately HK$19,787 million)) and EUR200 million (approximately HK$1,665 million) (2016: EUR200 million (approximately HK$1,665 million)) were designated or re-designated as cash flow hedges and fair value 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 Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary to address short-term imbalances.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following tables detail the Group's exposure at the end of the reporting period to currency risk arising from significant monetary assets or liabilities denominated in foreign currencies.

In HK$ million	2016			**2017**		
	United States Dollar	Euro	Chinese Renminbi	**United States Dollar**	**Euro**	**Chinese Renminbi**
Restricted cash	–	–	8	**–**	**–**	**–**
Amounts due from related companies	–	–	9	**–**	**–**	**12**
Other financial assets	–	–	–	**79**	**–**	**–**
Trade receivables	1,103	168	337	**1,708**	**227**	**266**
Short-term deposits	–	–	3	**1,017**	**–**	**2**
Cash and cash equivalents	1,524	51	225	**4,219**	**130**	**216**
Trade payables	(1,699)	(153)	(145)	**(1,298)**	**(115)**	**(102)**
Amounts due to related companies	(33)	–	–	**–**	**–**	**–**
Short-term borrowings	(457)	–	–	**–**	**(622)**	**–**
Long-term borrowings	(18,611)	(1,613)	–	**(23,218)**	**(1,830)**	**–**
Gross exposure arising from monetary (liabilities)/assets	(18,173)	(1,547)	437	**(17,493)**	**(2,210)**	**394**
Less: Net monetary liabilities/(assets) denominated in respective entities' functional currencies	317	(78)	(424)	**(1,048)**	**(78)**	**(391)**
Less: Borrowings with hedging instruments	18,611	1,613	–	**18,796**	**1,830**	**–**
Overall net exposure	755	(12)	13	**255**	**(458)**	**3**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

As at December 31, 2017, if the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the Group's profit after tax for the year would have been increased/decreased by approximately HK$2 million (2016: HK$6 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve of the Group as at December 31, 2017 would have been debited/credited by approximately HK$91 million (2016: HK$108 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

As at December 31, 2017, if the Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant, the Group's profit after tax for the year would have been decreased/increased by HK$19 million (2016: an immaterial amount), mainly as a result of foreign exchange losses/gains on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve of the Group as at December 31, 2017 would have been debited/credited by approximately HK$48 million (2016: HK$51 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by a cross currency swap contract.

As at December 31, 2017, if the Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, the Group's profit after tax for the year would have been increased/decreased by an immaterial amount (2016: HK$1 million), mainly as a result of foreign exchange gains/losses on translation of Chinese Renminbi denominated monetary assets and liabilities which are not hedged by hedging instruments.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates occurred as at the end of the reporting period and applied to the Group's exposure to currency risk for monetary assets and liabilities in existence at those dates, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2016 and 2017.

ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars or in other major foreign currencies and pays interest at floating rates.

The Group has entered into fixed-to-floating cross currency swap contracts to manage the fair value interest rate risk arising from certain fixed rate long-term borrowings and floating-to-fixed swap contracts to hedge the cash flow interest rate risk arising from certain floating rate long-term borrowings.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period, after taking into account the effect of cross currency swap contracts and interest rate swap contracts designated as cash flow and fair value hedging instruments.

In HK$ million, except for %	2016 Effective interest rate %	2016	2017 Effective interest rate %	2017
Fixed rate borrowings:				
Long-term borrowings	–	–	**4.88**	**4,422**
Long-term borrowings with hedging instruments	3.58	18,034	**3.78**	**18,408**
Long-term bank borrowings with hedging instruments	1.84	1,484	**1.84**	**1,488**
		19,518		**24,318**
Variable rate borrowings:				
Short-term bank borrowings	5.18	457	**0.72**	**622**
Long-term bank borrowings	1.52	23,423	**1.64**	**20,077**
Long-term borrowings with hedging instruments	5.24	2,190	**5.44**	**2,218**
		26,070		**22,917**
Total borrowings		45,588		**47,235**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

As at December 31, 2017, if the interest rate on variable rate borrowings had been increased/decreased by 50 basis points (2016: 50 basis points), with all other variables held constant, the Group's profit after tax for the year would have been decreased/increased by approximately HK$78 million (2016: HK$85 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 occurred at the end of the reporting period and applied to the exposure to interest rate risk for the Group's floating rate borrowings in existence at those dates. The 50 basis points (2016: 50 basis points) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis was performed on the same methodology for 2016 and 2017.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (see note 24) and other financial assets (see note 25(i)). Other than unquoted equity securities held for strategic purposes, all of these investments are listed on recognized stock exchange markets. To manage the Group's equity price risk, the portfolio is diversified in accordance with the limits set by the Group.

As at December 31, 2017, the Group's listed equity investments of HK$1,133 million (2016: HK$12 million) are listed on Euronext Amsterdam and Tokyo Stock Exchange, Inc. (2016: Tokyo Stock Exchange, Inc. and the Alternative Investment Market operated by London Stock Exchange plc).

As at December 31, 2017, if the market price of the listed equity investments had increased/decreased by 5%, with all other variables held constant, the Group's available-for-sale financial assets reserve would have been increased/decreased by approximately HK$57 million (2016: HK$1 million) mainly as a result of fair value gains/losses on the listed equity investments.

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

d. Fair values of financial liabilities measured at amortized cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2016 and 2017 except as follows:

In HK$ million	2016		**2017**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Long-term borrowings	(45,131)	(45,168)	**(46,613)**	**(47,201)**

The fair values of 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.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values

The tables below analyze financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for asset or liability that are not based on observable market data (level 3).

In HK$ million	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	12	–	–	12
– Unlisted equity securities	–	–	1,045	1,045
Derivative financial instruments (non-current)	–	289	–	289
Total assets	12	289	1,045	1,346
Liabilities				
Contingent consideration payable	–	–	(22)	(22)
Derivative financial instruments (non-current)	–	(98)	–	(98)
Total liabilities	–	(98)	(22)	(120)

In HK$ million	**2017**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets				
– Listed equity securities	**1,133**	**–**	**–**	**1,133**
– Unlisted equity securities	**–**	**–**	**888**	**888**
Derivative financial instruments (non-current)	**–**	**225**	**–**	**225**
Derivative financial instruments (current)	**–**	**1**	**–**	**1**
Other financial assets	**–**	**79**	**–**	**79**
Total assets	**1,133**	**305**	**888**	**2,326**
Liabilities				
Contingent consideration payable	**–**	**–**	**(22)**	**(22)**
Derivative financial instruments (non-current)	**–**	**(253)**	**(29)**	**(282)**
Derivative financial instruments (current)	**–**	**–**	**(15)**	**(15)**
Total liabilities	**–**	**(253)**	**(66)**	**(319)**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group included in level 1 is the current bid price. Instruments included in level 1 comprise primarily available-for-sale financial assets listed on Euronext Amsterdam and Tokyo Stock Exchange, Inc..

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, foreign currency option and foreign exchange forward contracts classified as derivative financial instruments and an investment in a liquidity fund classified as other financial assets.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Instruments included in level 3 comprise available-for-sale financial assets for equity investments in several private companies and the OTT Preference Shares Option and the OTT Preference Shares Derivative classified as derivative financial instruments.

Specific valuation techniques used to value financial instruments include:

– 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 currency option is determined using the Black-Scholes option pricing model. The model's key inputs include the contractual terms of the contract, along with observable inputs, including spot and forward exchange rates, yield curves and the implied volatility.

– The fair value of the foreign exchange forward contracts is calculated based on the prevailing market foreign currency exchange rates quoted for contracts with the same notional amounts adjusted for maturity differences.

– The fair value of OTT Preference Shares Option is determined using Black-Scholes option pricing model. The model's key inputs include the underlying preference share price, risk-free rate and expected volatility.

– The fair value of the OTT Preference Shares Derivative is determined using the with and without method, which includes key inputs of the underlying preference share price, a marketability discount and the probability of certain liquidity events.

– The fair value of the investment in liquidity fund classified as "Other financial assets" is based on information from public markets.

For unlisted securities or financial assets without an active market, the Group establishes 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 result in a reasonable estimate on the fair value, the investment is stated in the consolidated statement of financial position at cost less impairment losses.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The key assumptions adopted in the valuation models include market multiples and discount rates which are based on historical patterns and industry trends of comparable companies. The fair values of these Level 3 instruments may differ significantly if there are material changes to the underlying assumptions applied in the relevant fair valuation models.

Key assumptions used for the valuations of these Level 3 instruments are:

i. OTT Preference Shares Option
- Underlying OTT Preference Share price: US$10.0 (2016: nil)
- Risk-free rate: 1.5% (2016: nil)
- Expected volatility: 32.2% (2016: nil)

ii. OTT Preference Shares Derivative
- Underlying OTT Preference Share price: US$10.0 (2016: nil)
- Liquidity discount: 22.0% (2016: nil)

iii. Other unlisted investments
- Market multiples (based on price earnings multiples or enterprise values/earnings before interest and tax multiples of comparable companies): 3 – 20 (2016: 3 – 20)
- Liquidity discount: 15% – 30% (2016: 15% – 30%)

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the year ended December 31, 2017.

There were no material changes in valuation techniques during the year ended December 31, 2017.

The following table presents the changes in level 3 assets/(liabilities) for the year ended December 31, 2017:

In HK$ million	Available-for-sale financial assets – unlisted equity securities		Derivative financial instruments – OTT Preference Shares Option and OTT Preference Shares Derivative		Contingent consideration payable	
	2016	**2017**	2016	**2017**	2016	**2017**
Beginning of year	782	**1,045**	–	**–**	(22)	**(22)**
Additions	378	**32**	–	**(51)**	–	**–**
Disposals	(115)	**(117)**	–	**–**	–	**–**
Fair value movement recognized in the consolidated income statement attributable to balance held at the end of the reporting period	–	**–**	–	**7**	–	**–**
Unrealized fair value losses transferred to equity	–	**(72)**	–	**–**	–	**–**
End of year	1,045	**888**	–	**(44)**	(22)	**(22)**

The estimated fair value of level 3 financial assets as at December 31, 2017 was HK$888 million (2016: HK$1,045 million).

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

f. Group's valuation process

The Group performs and monitors the valuations of financial assets required for financial reporting purposes, including level 3 fair values. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

The main level 3 input used by the Group pertains to the use of recent arm's length transactions, reference to portfolio statements, and reference to other listed instruments that are substantially the same, adjusted for the marketability discount on the Group's investments. The higher the marketability discount, the lower the fair value.

39 COMMITMENTS

a. Capital

Capital commitments authorized and contracted for by nature are as follows:

In HK$ million	2016	**2017**
Investments	64	**33**
Investment properties	472	**19**
Property under development	34	**167**
Acquisition of property, plant and equipment	715	**1,193**
	1,285	**1,412**

b. Operating leases

As at December 31, 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	2016	**2017**
Within 1 year	1,371	**1,283**
After 1 year but within 5 years	1,312	**1,844**
After 5 years	280	**631**
	2,963	**3,758**

Majority of the leases typically run for a period of 1 to 15 years as at December 31, 2017 (2016: 1 to 15 years). None of the leases include material contingent rentals.

39 COMMITMENTS *(CONTINUED)*

b. Operating leases *(continued)*

Network capacity and equipment

In HK$ million	2016	**2017**
Within 1 year	942	**974**
After 1 year but within 5 years	889	**892**
After 5 years	299	**298**
	2,130	**2,164**

Majority of the leases typically run for a period of 1 to 15 years as at December 31, 2017 (2016: 1 to 15 years). None of the leases include material contingent rentals.

c. Others

As at December 31, 2017, the Group has other outstanding commitments as follows:

In HK$ million	2016	**2017**
Purchase of rights to broadcast certain TV content	1,306	**2,020**
Operating expenditure commitments	214	**214**
	1,520	**2,234**

40 CONTINGENT LIABILITIES

In HK$ million	2016	**2017**
Performance guarantees	923	**572**
Tender guarantees	1	**2**
Guarantees given to banks in respect of credit facilities granted to an associate	56	**60**
Guarantees in lieu of cash deposit	2	**49**
Employee compensation	6	**8**
Guarantees indemnity	11	**11**
	999	**702**

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

41 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2017 are HK$37,851 million (2016: HK$38,786 million) of which the unused facilities amounted to HK$15,492 million (2016: HK$13,133 million).

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors their compliance with these covenants. As at December 31, 2017, none of the covenants relating to drawn down facilities were breached. Further details of the Group's management of liquidity risk are set out in note 38(b).

Summaries of short-term and long-term borrowings are set out in notes 25(f) and 26 respectively.

Security pledged for certain bank loan facilities includes:

In HK$ million	2016	**2017**
Property, plant and equipment	2	**89**
Investment properties	3,188	**–**
Available-for-sale financial assets	–	**1,039**
Other current assets	87	**–**
Restricted cash	8	**–**
Cash and cash equivalents	88	**–**
	3,373	**1,128**

As at December 31, 2016, a performance guarantee of approximately HK$161 million received in relation to the construction of the premium Grade A office building in Jakarta, Indonesia was pledged for certain bank loan facilities. The pledge was released during the year ended December 31, 2017.

42 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT LOSS OF CONTROL

During the year ended December 31, 2017, the Group completed the placing of 840,747,000 Share Stapled Units at HK$10.15 per Share Stapled Unit at an aggregate consideration, net of direct expenses, of approximately HK$8,361 million in cash. Accordingly, the Group recognized an increase in non-controlling interests of the HKT Group of approximately HK$642 million and an increase in equity attributable to the equity holders of the Company of approximately HK$7,719 million. Immediately after the completion of the placing, the Group holds approximately 51.97% of the total number of Share Stapled Units in issue, representing a reduction by approximately 11% from that before the placing.

(Amount expressed in Hong Kong dollars unless otherwise stated)

43 SUBSEQUENT EVENT

As disclosed in the joint announcement of the Company and PCPD dated January 15, 2018 (the "Joint Announcement") in relation to the proposed joint redevelopment of the properties at No. 3-6 Glenealy, Central, Hong Kong (the "Properties") by the PCPD Group and CSI Properties Limited, PCPD, through an indirect wholly-owned subsidiary of PCPD (the "Purchaser") will, subject to certain conditions as disclosed in the Joint Announcement, acquire the equity interest of the target group holding the Properties. Under the sale and purchase agreement, the consideration includes cash consideration of HK$2,018 million (subject to adjustments) and the allotment and issue of the non-voting participating share which is entitled to 50% of the dividends declared or distributions by the Purchaser. An initial deposit of HK$100 million was placed with the stakeholder on January 15, 2018. The transaction is expected to be completed in the first half of 2018. For details, please refer to the Joint Announcement.

44 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2017

Up to the date of approval of these financial statements, the HKICPA has issued the following new and amended standards and interpretations which are not yet effective for the accounting period ended December 31, 2017 and which have not been early adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 40 (Amendment)	Investment Property	January 1, 2018
HKFRS 2 (Amendment)	Share-based Payment	January 1, 2018
HKFRS 4 (Amendment)	Insurance Contracts	January 1, 2018
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
HKFRS 15	Revenue from Contracts with Customers	January 1, 2018
HKFRS 16	Leases	January 1, 2019
HKFRS 17	Insurance Contracts	January 1, 2021
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	January 1, 2019
Annual Improvements to HKFRSs 2014-2016 Cycle		January 1, 2018

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, 2017 and have not been early adopted in these financial statements.

44 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2017 *(CONTINUED)*

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

HKFRS 15, "Revenue from Contracts with Customers"

HKFRS 15 will replace HKAS 18 which deals with contracts for goods and services, HKAS 11 which deals with construction contracts and related literature. HKFRS 15 is based on the principle that revenue is recognized when control of a good or service transfers to a customer. HKFRS 15 permits adoption using either the full retrospective approach or a modified retrospective approach. The Group intends to use the full restrospective approach when it adopts HKFRS 15 effective January 1, 2018.

While the Group is continuing to assess the effect of applying HKFRS 15 on the Group's consolidated financial statements, the Group has identified a number of its current revenue recognition policies and disclosures that will be impacted by HKFRS 15. Those most significant areas are discussed below. The Group has not yet completed its quantitative assessment of the impact of HKFRS 15.

HKFRS 15 will require the identification of deliverables in contracts with customers that qualify as separate "performance obligations". The performance obligations identified will depend on the nature of individual customer contracts. For HKT and PCCW Media, these are expected to include mobile handsets, telecommunications and other equipment, gifts provided free of charge and telecommunications and media services provided to customers.

Where customer contracts, generally HKT and PCCW Media, contain more than one performance obligation, the transaction price receivable from customers must be allocated between the Group's performance obligations on a relative standalone selling price basis. The primary impact on revenue reporting will be that when the Group sells telecommunications or other equipment or subsidized mobile handsets together with gifts and telecommunications or media service agreements to customers, revenue allocated to the equipment, handsets and gifts, which are recognized at contract inception when control typically passes to the customer, will be recorded at their relative standalone fair value and not using the current residual value method as set out in note 2(w)(i). Nevertheless, it is expected that there will be no material impact on the total revenue to be recognized by the Group in the consolidated income statement over the respective contract periods.

Currently, the Group capitalizes subsidized handsets and gifts as customer acquisition costs and amortizes these amounts on a straight-line basis over the minimum enforceable contractual periods. Under HKFRS 15, the costs of subsidized handsets and gifts are required to be recognized as costs of goods sold immediately when the corresponding revenue is recognized, rather than the existing treatment of being charged to the consolidated income statement through amortization of customer acquisition costs. The total net profit recognized by the Group over the full contract period is not expected to be materially affected.

In relation to PCPD, under HKFRS 15, revenue from sale of properties is recognized when or as a performance obligation by transferring the properties to the customers is satisfied. A property is transferred when or as the customer obtains control of that property. Depending on the terms of the contracts and the laws that apply to the contracts, control of the properties may transfer over time or at a point in time.

The adoption of HKFRS 15 will not have any material impact on the Group's consolidated statement of cash flows.

44 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2017 *(CONTINUED)*

HKFRS 9, "Financial instruments"

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. Furthermore, under the new HKFRS 9, there is a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. Measurement of impairment loss on trade receivable based on an expected credit losses model requires the use of historical data as well as forward looking information. HKFRS 9 also relaxes the requirements for hedge effectiveness but contemporaneous documentation is still required. Management is in the process of assessing the impact of HKFRS 9. It is not practicable to provide a reasonable estimate of the effect until the Group completes this detail review. The adoption of HKFRS 9 is also expected to require more disclosures on the Group's consolidated financial statements.

HKFRS 16, "Leases"

HKFRS 16 will affect primarily the accounting for Group's 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 Group is in the process of assessing to what extent the operating lease commitments as disclosed in note 39(b) will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2017

Results

In HK$ million	2013	2014	2015	2016	**2017**
Revenue	27,317	33,277	39,314	38,384	**37,050**
Cost of sales	(13,111)	(15,151)	(18,965)	(17,743)	**(16,857)**
General and administrative expenses	(10,735)	(14,091)	(14,534)	(15,114)	**(14,322)**
Other gains, net	685	2,717	135	32	**1,201**
Interest income	80	90	87	52	**134**
Finance costs	(1,111)	(1,418)	(1,634)	(1,429)	**(1,526)**
Share of results of equity accounted entities	140	50	37	45	**54**
Profit before income tax	3,265	5,474	4,440	4,227	**5,734**
Income tax	(210)	(803)	(447)	(395)	**(1,134)**
Profit for the year	3,055	4,671	3,993	3,832	**4,600**
Attributable to:					
Equity holders of the Company	1,885	3,310	2,295	2,051	**2,246**
Non-controlling interests	1,170	1,361	1,698	1,781	**2,354**

Assets and Liabilities

As at December 31

In HK$ million	2013	2014	2015	2016	**2017**
Total non-current assets	36,358	51,648	54,619	59,070	**63,660**
Total current assets	17,579	21,391	20,139	20,514	**28,240**
Total current liabilities	(10,658)	(19,018)	(17,493)	(14,084)	**(14,815)**
Total non-current liabilities	(34,646)	(41,652)	(43,923)	(50,724)	**(53,880)**
Net assets	8,633	12,369	13,342	14,776	**23,205**

Distributable Reserves of the Company

As at December 31

In HK$ million	2013	2014	2015	2016	**2017**
Distributable reserves of the Company	15,874	17,912	18,460	18,855	**18,905**

INVESTOR RELATIONS

DIRECTORS
The directors of the Company as at the date of the announcement of the 2017 Annual Results are:

Executive Directors:
Li Tzar Kai, Richard *(Chairman)*
Srinivas Bangalore Gangaiah (aka BG Srinivas) *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*
Lee Chi Hong, Robert

Non-Executive Directors:
Tse Sze Wing, Edmund, GBS
Lu Yimin *(Deputy Chairman)*
Li Fushen
Shao Guanglu
Wei Zhe, David

Independent Non-Executive Directors:
Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP
Aman Mehta
Frances Waikwun Wong
Bryce Wayne Lee
Lars Eric Nils Rodert
David Christopher Chance
David Lawrence Herzog

GROUP GENERAL COUNSEL AND COMPANY SECRETARY
Bernadette M. Lomas

REGISTERED OFFICE
41st Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong
Telephone: +852 2888 2888
Fax: +852 2877 8877

ANNUAL REPORT 2017
This Annual Report 2017 in both English and Chinese is now available in printed form from the Company and the Company's Share Registrar, and in accessible format on the websites of the Company (www.pccw.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Shareholders who:
A) received the Annual Report 2017 using electronic means through the website of the Company may request a printed copy, or
B) received the Annual Report 2017 in either English or Chinese may request a printed copy of the other language version

by writing or sending email to the Company c/o the Company's Share Registrar at:

Computershare Hong Kong Investor Services Limited
Investor Communications Centre
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Telephone: +852 2862 8688
Fax: +852 2865 0990
Email: pccw@computershare.com.hk

Shareholders who have chosen (or are deemed to have agreed) to receive the corporate communications of the Company (including but not limited to the Annual Report 2017) using electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2017 will promptly, upon request in writing or by email to the Company's Share Registrar, be sent the Annual Report 2017 in printed form, free of charge.

Shareholders may change their choice of language and/or means of receipt of the Company's future corporate communications at any time, free of charge, by reasonable prior notice in writing or by email to the Company's Share Registrar.

LISTINGS
The Company's shares are listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts ("ADRs") on the OTC Markets Group Inc. in the United States. Each ADR represents 10 ordinary shares of the Company. Certain guaranteed notes issued by subsidiaries of the Company are listed on the Singapore Exchange Securities Trading Limited and the Taipei Exchange in Taiwan, China.

Owners of record as of the close of business on the ADR record date of American Depositary Shares can vote by proxy at the annual general meeting by completing a voting instruction card provided by the Depositary Bank. The Depositary Bank will tabulate and transmit the amount of ordinary share votes to the Company before the annual general meeting.

Additional information and specific inquiries concerning the Company's ADRs should be directed to the Company's ADR Depositary at the address given on this page.

Other inquiries regarding the Company should be addressed to Investor Relations at the address given on this page.

STOCK CODES
The Stock Exchange of Hong Kong Limited	0008
Reuters	0008.HK
Bloomberg	8 HK
ADRs	PCCWY

REGISTRAR
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Telephone: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

ADR DEPOSITARY
Citibank, N.A.
PCCW American Depositary Receipts
Citibank Shareholder Services
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Providence, Rhode Island 02940-3077, USA
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Telephone: +1 781 575 4555
Email: citibank@shareholders-online.com
Website: www.citi.com/dr

SHARE INFORMATION
Board lot:	1,000 shares
Issued shares as at December 31, 2017:	7,719,638,249 shares

DIVIDEND
Dividend per ordinary share for the year ended December 31, 2017:

Interim	8.57 HK cents
Final	21.18 HK cents*

** Subject to the approval of shareholders at the 2018 Annual General Meeting*

FINANCIAL CALENDAR
Announcement of 2017 Annual Results	February 7, 2018
Closure of register of members (for determination of shareholders who qualify for 2017 final dividend)	May 16-17, 2018 (both days inclusive)
Record date for 2017 final dividend	May 17, 2018
Payment of 2017 final dividend	On or around June 8, 2018
2018 Annual General Meeting	May 10, 2018

INVESTOR RELATIONS
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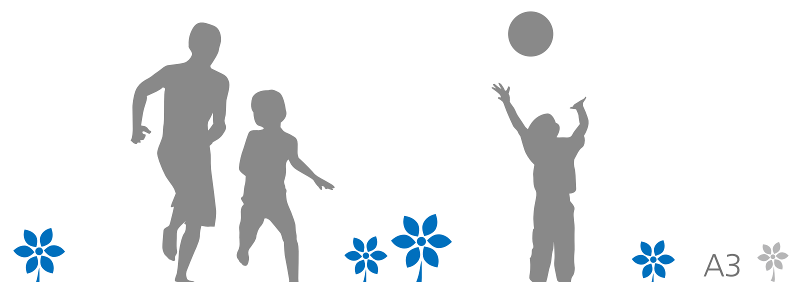
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong
Telephone: +852 2514 5084
Email: ir@pccw.com

WEBSITE
www.pccw.com

Appendix

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CONTENTS



GROUP MANAGING DIRECTOR'S MESSAGE

I am pleased to present PCCW's second Environmental, Social and Governance (ESG) Report.

At PCCW, doing business in an ethical, social and environmentally responsible way is a cornerstone of our corporate philosophy. We always believe that addressing the needs of society is not only the right thing to do, but can also be a valuable opportunity for innovation and business development.

Being a responsible business is also about working to minimize environmental impacts. We are committed to reducing our carbon footprint and enhancing the energy efficiency of our data centers, other facilities and equipment.

We are grateful to our 24,000 employees who have helped us develop and deliver world-class products and services. We shall continue to build a strong employer brand to attract the right talent across our global operations. We provide our staff with opportunities to give their time and service to those in need. This allows our people to connect with and give back to the communities in which they live and work. Our corporate volunteers recorded over 20,000 hours of service in 2017.

In the future, we see opportunities to further leverage our leading position in telecommunications, media and technology to create positive impacts for individuals, communities and the environment. We are committed to developing technological solutions to build a better Hong Kong. In the many areas highlighted throughout this report, PCCW is working to better the future.

BG Srinivas
Group Managing Director

ABOUT THIS REPORT

This is the second Environmental, Social and Governance ("ESG") report of PCCW Limited ("PCCW" or the "Company") and its subsidiaries (collectively referred to as the "Group" in this report). The report complies with 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).

PCCW (SEHK: 0008) is a global company headquartered in Hong Kong which holds interests in telecommunications, media, IT solutions, property development and investment, and other businesses.

This report has been reviewed and approved by PCCW's Board of Directors (the "Board").

Report Scope

Unless otherwise stated, data and information in this report covers PCCW's core businesses primarily in Hong Kong – namely telecommunications, media and IT solutions. Where relevant, references are also made to the activities of subsidiaries and outsourced operations.

While this report covers the businesses of HKT Trust and HKT Limited ("HKT") (SEHK: 6823), in which the Group holds a majority interest, HKT is also issuing a separate ESG report. HKT is Hong Kong's premier provider of telecommunications and leading operator in fixed-line, broadband and mobile communication services.

This report also covers PCCW Media and PCCW Solutions, which are owned by the Group. PCCW Media is a fully integrated multimedia and entertainment group in Hong Kong. PCCW Solutions is a leading information technology outsourcing and business process outsourcing provider in Hong Kong and mainland China.

This report does not cover PCCW's joint ventures, nor Pacific Century Premium Developments Limited ("PCPD") (SEHK: 0432), in which the Group holds a majority interest. PCPD is issuing a separate ESG report.

The report describes PCCW's approach, initiatives and priorities in managing material ESG areas for the financial year ended December 31, 2017. A list of PCCW's material areas is set out in the Corporate Social Responsibility at PCCW section of this report. Disclosure on corporate governance is provided in the Corporate Governance Report of the PCCW Annual Report 2017.

HIGHLIGHTS

EMISSIONS

- 98% of broadband customers, 97% of mobile customers, 86% of Now TV customers, and nearly 34% of fixed-line customers receive e-billing. In 2017, around 18 million e-bills were generated saving nearly 48 million sheets of paper.
- Gradually upgrade 60 more vehicles in the coming four years.

RECYCLING/ USE OF RESOURCES

- Collected 12,806 handsets for donation or responsible disposal.
- Recycled 1,983 printer ink cartridges.
- 26.44 tonnes of copper, iron and steel were recycled.

HEALTHY AND SAFE WORKPLACE

- Launched Group Safety Charter to enhance safety standard and culture.

STAFF DEVELOPMENT

- 2,003 learning and development programs and seminars.
- 12.3 training hours per staff in 2017.

SUPPLY CHAIN

- Conducted 100 visits to assess suppliers' performance.
- Compliance with ISO 9001:2008 Quality Management System.

RESPONSIBLE NETWORK MANAGEMENT

- 100% mobile reliability and 99.99% broadband network stability in 2017.
- Fiber-To-The-Building coverage reaches 88.3%, with 85.6% Fiber-To-The-Home coverage.

CUSTOMER SATISFACTION

- Received 37,894 customer compliments in 2017.

DATA PRIVACY AND SECURITY

- ISO 27001 certified IT Security Management Systems.

COMMUNITY INVESTMENT

- 26 ongoing and 17 special programs with NGOs, charities, etc.
- 21,131 volunteer service hours in 2017.

1. CORPORATE SOCIAL RESPONSIBILITY AT PCCW

As Hong Kong's leading information and communications technology (ICT) and media service provider, corporate social responsibility (CSR) is an integral part of our business strategy. We seek to operate in an economically, socially and environmentally ethical way while balancing the interests of our internal and external stakeholders, and supporting and connecting the communities we serve. Meeting this commitment is not only an important management objective, but also the individual and collective responsibility of all PCCW employees.

1.1 CSR Governance Structure

PCCW's Board of Directors provides strategic oversight for CSR at PCCW. The CSR Committee, chaired by the Head of Group Communications and comprised of the Group Functional Unit Heads, is responsible for formulating and reviewing PCCW's CSR policies, and monitoring the effectiveness of our environmental and social initiatives. The CSR Committee meets regularly, and reports to the Executive Committee. The CSR Team communicates and works with Departmental CSR Representatives to promote and implement CSR initiatives across the Group.

Each of the following entities plays a significant role in managing our CSR efforts:

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 • Approves CSR Policy and Corporate Responsibility (CR) Policy
Executive Committee	• Operates as a general management committee with overall delegated authority from the Board
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 shareholders • Assists the Board with ensuring that effective risk management and 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 PCCW 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	• Reviews the Company's CSR strategy, principles and policies to ensure the Company operates in a manner that enhances its positive contribution to society and the environment • Sets guidance and direction of and oversees CSR practices and procedures • Monitors progress on CSR and related activities
CSR Team	• Promotes CSR internally and externally • Organizes and implements CSR initiatives
Departments and Business Units	• Implement CSR practices and ensure CSR compliance in daily operations

Departmental CSR Representatives*	• Serve as a bridge between the CSR Team and the department/unit • Facilitate implementation of CSR initiatives proposed by the CSR Team • Raise CSR awareness of colleagues • Assist the CSR Team with preparation of ESG reports and responding to ESG-related surveys

* In 2017, a total of 23 Departmental CSR Representatives were appointed from across various departments and units to enhance internal communication and effectiveness of CSR-related matters.

1.2 Our Policies

PCCW has a CSR Policy and a CR Policy that all members of the Group must adhere to. These policies govern our actions and decisions to consider our economic, environmental and social implications, in addition to ensuring that we fully comply with relevant laws and regulations.

Our CSR Policy states PCCW's CSR Vision and Mission, and describes how the Group interacts with its stakeholders and society at large, and how we address environmental issues to meet and exceed minimum legal requirements. It ensures that PCCW and its subsidiaries, affiliates, and associated companies, in Hong Kong and internationally consistently operate in a responsible manner.

In 2017, we reviewed and updated our CSR Policy by referencing the ISO 26000 Guidance on Social Responsibility. Our updated CSR Policy is structured based on the core subjects under ISO 26000, which outline six key areas of social responsibility:

The revised CSR Policy, which has been endorsed by the Board of Directors, also identifies certain focus areas. They are:

- Community – equipping students and youth with skills and resources to excel in the digital age, while also connecting elderly members of the community with technologies that promote active and smart aging;
- Environment – incorporating environmentally friendly considerations into sustainable business operations (such as recycling of copper and other scrap materials and proper disposal of used mobile phones) and transforming customer lifestyles; and
- People – positioning ourselves as an Employer of Choice with a view to attracting and retaining talented individuals to sustain a diverse and vibrant workforce.

Furthermore, the revised Policy provides additional details of our CSR management approach, as well as our commitments with respect to customers and marketplace and supply chain management. We have also included references to other relevant PCCW policies, guidelines, and procedures in the new Policy document.

The CSR Policy applies to all directors, officers and employees of the Group. Our vendors, contractors, subcontractors and business partners are encouraged to adopt our CSR Policy as best practice guidance for their own operations.

Our CR Policy, which has been approved by the Board, covers PCCW's expectations of all employees and business partners regarding compliance with relevant laws and regulations, integrity and ethical conduct. The CR Policy provides guidance on employee conduct in areas such as:

- Compliance with laws, regulations and PCCW Group policies
- Civic behavior and responsibility
- 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 provisions of our CR Policy include those that establish our zero-tolerance of bribery and corruption in any form. Our Bribery, Gifts and Entertainment Policy prescribes the minimum standards to be adopted throughout our Group to prevent, identify and address any instances of alleged or actual bribery or corruption.

Our whistle-blowing policy and procedures are available on our intranet and corporate website to enable employees and other parties to confidentially and anonymously report unethical activities. Employees have the right to submit anonymous complaints to the Director of Internal Audit or the corresponding Audit Committee Representative either in writing or by telephone via a confidential telephone hotline and voicemail facility that does not log or display the caller's number. All whistle-blowing reports are thoroughly investigated and reported to the Audit Committee.

Employees who have concerns about a potential conflict of interest are encouraged to seek clarification from their line manager. A Declaration of Conflict of Interest form, which is available on the Company's intranet, should be completed in all cases that present a potential conflict.

Any individual who violates our Company policies and/or applicable laws and regulations may be subject to disciplinary and/or administrative action as well as civil and/or criminal liability. Where an instance of non-compliance by an employee is confirmed, their employment may be terminated and/or further actions may be taken. In 2017, no legal cases concerned with corrupt practices were brought against PCCW or any of our subsidiaries or employees.

All employees have a duty to uphold the standards established in our CR Policy. Upon recruitment and during annual performance reviews, employees of PCCW and its subsidiary companies are required to agree to comply with our CR Policy by signing a compliance declaration.

In light of the changing business and regulatory environments, we regularly review our CSR and CR policies to ensure they remain applicable to our operations and in compliance with current laws and regulations. Our Risk Management, Controls and Compliance Committee regularly reviews the design, implementation and monitoring of the risk management and internal control systems for the Group. For more details, please refer to PCCW Annual Report 2017.

1.3 Stakeholder Engagement and Materiality

We value the opinions of our internal and external stakeholders on ESG-related matters. In 2016, we conducted a comprehensive materiality assessment exercise that included focus groups, interviews and surveys. This exercise identified 23 material areas for PCCW to manage and report on.

In 2017, we engaged with external stakeholders – including representatives from suppliers, business partners, academic institutions and non-governmental organizations (NGOs) – through two focus groups to gather feedback on our ESG Report 2016 and help review and validate our material areas.

PCCW's material areas remain unchanged from those identified in 2016. This report has been structured around the material areas, which are discussed in greater detail in Sections 2 to 6.

Material areas

- Corporate governance[1]

- Anti-corruption[1]

- Community investment
- Employee engagement in community
- Technology and education initiatives

- Talent attraction and retention
- Employee well-being and working conditions
- Learning and development
- Occupational health and safety
- Human rights

- Customer data privacy and security
- Responsible advertising
- Reliable services and products
- Responsible network management
- Customer service and satisfaction
- Content dissemination to different audiences

- Supply chain and procurement

- Energy
- Carbon emissions
- Waste management
- Computers and commodities (e-waste)
- Green ICT solutions
- Employee environmental awareness

1.4 External Recognition

PCCW is a constituent member of the Hang Seng Corporate Sustainability Benchmark Index Series and FTSE4Good Index Series.

HKT received the Certificate of Excellence of Hong Kong Sustainability Award 2016/17 from the Hong Kong Management Association.

[1] For details on corporate governance and anti-corruption, please refer to the earlier section and PCCW Annual Report 2017.

2. OUR COMMUNITY

In this digital age, improved access to communication technologies can create enormous value for the underprivileged. Our commitment to community investment is embedded in the Group's CSR Policy. We focus on leveraging our resources and core competencies to drive positive change for people and the communities in which we operate.

OBJECTIVES

- Support vulnerable and underprivileged groups
- Enhance ICT and digital literacy
- Use technology to serve society

MEASURES

- Corporate Volunteer Team participates in community service projects
- Develop and support technology literacy initiatives and campaigns
- Develop technological solutions to enhance quality of life

In 2017, we continued to support a diverse range of initiatives through our corporate volunteer services, education and community services, and financial and in-kind contributions. Collaboration is key to effective programs. Over the years, the Group and our corporate Volunteer Team have built strong partnerships with the Government, NGOs, academic institutions and other businesses to support those in need. We strive to serve a range of beneficiaries, including the elderly, students and youth, children, people with disabilities and other groups. We focus our efforts on providing ICT solutions that promote active and smart aging, and enabling students and youth to engage in the digital world.

Our work in the community:

Cumulative number of volunteers since 1995	Active volunteers in 2017	Volunteer hours in 2017	Ongoing programs in 2017	Special programs in 2017
4,872	582	21,131	26	17

2.1 Engaging with the Community

Our corporate Volunteer Team, which consists of employees, their family members and Company retirees, has been active for over 20 years. Volunteer numbers have continued to grow and the scope of the volunteer projects that we support has also expanded.

To recognize and acknowledge the dedication of our staff volunteers, the Group organizes the annual Volunteer Award Ceremony and operates a Volunteer Appreciation Scheme. Our Volunteer Appreciation Scheme grants up to two days of volunteer leave every year to eligible employees participating in community service initiatives.

Nearly **500** days

of volunteer leave were granted to our volunteers in 2017

In 2017, our corporate Volunteer Team once again received the Award of 10,000 Hours for Volunteer Service and the Merit of Highest Service Hour Award 2016 (Private Organizations – Category 1) from 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 2016. The team also won the Silver 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 2017. PCCW has been a Caring Company of Hong Kong Council of Social Service's Caring Company Scheme for over 15 years.

Community service highlights in 2017

The Elderly

- A VR (virtual reality) world tour was organized at an elderly center for the elderly residents to experience world travel.
- Organized smartphone workshops to teach elderly people how to use smartphones and apps.
- Sponsored the "Care for the Elderly Line", in partnership with the Hong Kong Council of Social Service, to provide free telephone installation and related service to senior citizens.
- Volunteers visited the elderly during festivals to spread festive joy.

Students and Youth

- Supported the Commission on Poverty's "Life Buddies Mentoring Scheme". A visit to the 2017 FIA Formula E HKT Hong Kong E-Prix was arranged for the secondary school mentees.
- HKT education and NETVIGATOR supported the "Inter-School IT Elite Challenge 2017" organized by the Hong Kong Association for Computer Education and the Hong Kong Software Industry Association. The activity aimed to encourage interest in information technology among primary and secondary school students.
- HKT eye held a fundraising painting contest for visually impaired children in partnership with TREATS, a charity that works to improve social integration for children in Hong Kong. This activity promoted social inclusion of children with special needs.

Children

- Volunteers organized a charity balloon sale at the Company's Annual Dinner 2017 to raise funds for the Playright Children's Play Association to support its therapeutic play services.
- Volunteers promoted 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.

People with Disabilities

- Volunteers worked with the visually impaired crew from the Dialogue in the Dark (Hong Kong) Foundation to organize the 1010-sponsored "Concert in the Dark 2017" voice performance events that took place in complete darkness.
- We provided IT support for long-term disabled patients at Cheshire Home in Shatin.

Others

- The Company joined the "Dress Pink Day" organized by Hong Kong Cancer Fund to increase awareness of breast cancer and raise funds for cancer care service.
- Our media business produced television programs to raise public awareness and reduce the social stigma associated with Alzheimer's disease and visual impairment.

20 Years of Volunteering

PCCW actively participates in the Volunteer Movement scheme of the Social Welfare Department (SWD). Every year, SWD recognizes long-serving corporate volunteers with the Long Service Award. In 2017, Thames received the award for contributing 20 years of service to the community. Thames actively participated in medical volunteer services, such as assisting in pathology talks at Queen Elizabeth Hospital to advise and support patients as well as their family members. He also played a leading role in the Children's Play Therapy at Kwong Wah Hospital.

"In the beginning, medical volunteering was completely new to me. I gradually learnt how to communicate with patients by working with the more experienced volunteers. I have learned a great deal over the past two decades, but the best reward for volunteers is to see the smiling faces of the beneficiaries!"

Thames Leung
Manager, Engineering, HKT

2.2 Using ICT to Support the Community

We use our expertise and core competencies to address community challenges, such as facilitating access to ICT knowledge for younger generations.

Girls Go Tech

Digital literacy is an increasingly important skill. We work with various partners to develop and support technology literacy initiatives and campaigns, and to provide easier and more affordable access to ICT knowledge.

We partnered with The Women's Foundation to provide free computer coding and digital skill workshops for girls from underprivileged backgrounds. The year-long, school-based "Girls Go Tech" Program aims to encourage junior secondary school girls to pursue traditionally male-dominated science, technology, engineering and mathematics-related subjects (commonly referred to as STEM subjects) and fulfill their academic and personal potential in an increasingly technology-driven world. Around 400 female students from 10 schools have benefited from the program, with HKT providing support as a technology partner and steering committee member, and by providing seminar speakers.

Creating Quality eLearning

Financial and locational barriers to education can be overcome through eLearning, which can create an educational experience that is both engaging and cost-effective. Through the STEM education scheme, HKT education offers 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 numerous seminars and courses to train teachers on integrating technology into their teaching and optimize the efficiency of e-classrooms. To date, teachers from more than 300 primary and secondary schools have benefited from the Academy's training courses and professional development programs.

Smart Mobility

The Transport Department has selected PCCW Solutions to design, implement and maintain the existing Transport Information System (TIS), synchronizing with the smart city initiative of the HKSAR Government. The revamped system applies the latest information technology that more efficiently processes a vast amount of traffic and transport data to facilitate better traffic flow management. Road users will be able to access real-time traffic and transport information through government portals, enabling them to make more informed decisions on route choices.

GLOTEL GLOBAL TELECOMS AWARDS 2017

PCCW Solutions has also developed Smart Parking and Charging Solutions. The platform enables drivers to locate and reserve parking and electic vehicle charging facilities in real-time by mobile app, and provides them with online payment options. The platform is widely used in shopping malls, commercial and residential buildings, as well as telecommunications and public utility companies. The project received Global Telecoms Awards for its involvement in advancing and transforming today's telecoms industry.

2.3 Academia and Research

We support research projects developed by local universities and institutes, and capitalize on research-business partnerships to foster the development of the ICT industry in Hong Kong.

Research Partners	Project Topics	Potential Benefits
The Hong Kong Polytechnic University	Video quality assessment	Develop the first benchmarking tool on network quality enhancement for video access
City University of Hong Kong	Network security system and cyber-attacks	Facilitate early detection of potential hackers and mitigation of cyberattacks
Hong Kong University of Science and Technology	Smart Wi-Fi	Utilize a combination of advanced sensors/ tools and analytics to improve the accuracy and reliability of Smart Wi-Fi under different scenarios

To help cultivate talented future IT professionals, we have been offering annual scholarships and bursaries to students of computer science, IT and related disciplines for over 20 years. We currently provide scholarships and bursaries to four local universities and have extended our coverage to another two universities for the 2018 academic year.

Building Intelligent Transport Systems

As the mobile network technology leader in Hong Kong, HKT is committed to supporting the Government's Smart City vision and strategy. In March 2017, we partnered with Hong Kong Applied Science and Technology Research Institute (ASTRI) and technology companies Huawei and Qualcomm Technologies to form a Smart Mobility Consortium (SMC) to build a smart mobility system using cellular vehicle-to-everything (C-V2X) technologies. This system can help enhance safe transportation in Hong Kong and supports the Government's Intelligent Transportation System (ITS) strategy.

A vehicle fitted with C-V2X can exchange information with other vehicles, pedestrians and network infrastructure to strengthen driving assistance, traffic management and road safety.

As a member of the SMC, we continue to work alongside the Government and industry stakeholders to drive the commercial potential of C-V2X. We plan to expand the application of the C-V2X technology to sectors such as shipment, ridesharing, home-delivery, insurance, infotainment, and mobile healthcare.

An alert will be issued when two vehicles are approaching the same intersection point.

2.4 Philanthropic Sponsorship

We provided support for many events and initiatives in 2017, including:

- Provided communication systems for Oxfam Trailwalker
- Sponsored the telephone hotlines for fundraising shows for Tung Wah Group of Hospitals, Po Leung Kuk, Yan Oi Tong and Yan Chai Hospital
- Sponsored consultation services hotlines for The Samaritans, Hok Yau Club, Hong Kong Children and Youth Services, and Tai Hang Youth Centre
- Provided telecommunications support for NGOs, including Cheshire Home (a residential home for the disabled) and a pediatric ward at Princess Margaret Hospital
- Supported the "Stargaze Camp for All and the Blind" that promotes social inclusion

Nurturing IT Talent

The Group has been sponsoring the "Shanghai-Hong Kong-Taiwan Youth IT Summer Camp" for over 15 years. The camp aims to nurture young people who are interested in enhancing their IT knowledge and considering a future career in the technology sector. In 2017, 60 students from Shanghai, Hong Kong and Taiwan joined the five-day camp in Taipei. The students visited government departments and leading IT corporations to understand the development of a "Smart City". They also learnt the skills required to create an e-book.

3. OUR PEOPLE

PCCW employs 24,000 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 collaboration and offers our employees opportunities to learn, grow and succeed at work and in life.

OBJECTIVES

- To attract, develop, motivate and retain suitable people
- To create a vibrant and diverse workforce

MEASURES

- Engage with our employees
- Provide career development and promotion opportunities
- Provide a healthy and safe workplace, and well-being initiatives

As a customer-facing business, our people are our ambassadors in the community. If our employees are happy, work well together and take pride in their contributions, they will provide an excellent service to customers. We are committed to building an inclusive workplace, investing in staff well-being, and ensuring that every PCCW employee can reach their full potential.

The dynamic ICT sector is an attractive career choice for young people. 41.7% of our employees based in Hong Kong are aged 35 years old or below. Our efforts to encourage and empower our young talent to develop innovative ideas that will enhance our products and services have led to new business opportunities such as Tap & Go and Smart Charge.

41.7%

of our employees are under the age of 35

3.1 Maintaining a Diverse and Inclusive Workplace

As the Group expands its global presence, an inclusive corporate culture is critical to our business success. Our workforce now comprises employees from over 50 nationalities, with a diverse range of expertise and backgrounds.

PCCW respects and upholds fundamental human rights. We prohibit forced labor and child labor across our operations, and do not tolerate discrimination of any kind.

We encourage and support more women to take on leadership roles at the Company – one-third of our leadership roles are assumed by female colleagues.

We are committed to providing employment opportunities for people with disabilities. We have been a partner of the Dialogue Experience Empower (DEE) "Career Empowerment Platform for People of Differences" program since September 2016. This social inclusion initiative offers job immersion opportunities to people with disabilities with the goal of improving their mainstream employment prospects.

In 2017, we provided practical work experience through a business training curriculum and hands-on project experience for post-secondary graduate students with visual, hearing and other physical disabilities. This partnership has helped to promote greater awareness among our employees of how people with disabilities can be included as valuable members of our team. We will continue to support and collaborate with DEE with an aim to serve more beneficiaries.

In recognition of our support for people with disabilities, we were named a Dialogue Experience Corporate Champion for advocating for inclusion and diversity in corporate workplaces.

Growing a dynamic workforce

As the ICT industry is a 24/7 business, the flexibility of our workforce is important to ensure the delivery of high-quality customer service. Working alongside our shift duty staff, part-time, temporary and contract-staff comprised 7% of our workforce in 2017. This empowers our workforce to deliver superior service to customers around the clock and in multiple geographies.

3.2 Connecting with Our People

In line with the rest of our business, our Human Resources (HR) function has undergone a digital transformation that has enhanced our ability to engage with our staff. A new HR portal, conferencing facilities and intranet have increased the scope of communication for employees in various locations and across numerous job functions. The online portal enables employees to be self-sufficient when undertaking routine HR tasks such as personal record updates, leave applications, medical enrolments and preparing for performance reviews. A staff newsletter and management blog are published regularly on our intranet to keep all staff up to date with events and Group-wide business developments.

The views and expectations of our people are crucial for ensuring the smooth running of our business operations and for sustaining positive energy amongst employees. We have established channels for employees to share feedback and suggestions with senior management, including face-to-face meetings, "Let's Chat" sessions with senior management and town-hall-style gatherings. The Joint Staff Council (JSC) provides staff and management with a forum to meet regularly to discuss and exchange ideas on operational efficiency, career development and training, working conditions and the provision of social activities and recreational facilities.

3.3 Talent Progression and Succession Plan

We have established a robust succession pipeline for our staff. We work tirelessly to attract and retain the best talent. We nurture the capabilities of our employees with comprehensive training, leadership programs, and continuous development initiatives to ensure their knowledge and skills keep pace with advances in technology and best business practices all the way through to retirement.

Recruiting graduate trainees

As the leading ICT service provider in Hong Kong, PCCW offers fresh graduates opportunities to build a career in the technology sector by partnering with local and international universities through our Graduate Trainee Program. This program provides fast track pathways to graduates seeking careers in fields ranging from engineering and IT to customer service, marketing and sales.

145 graduate trainees were hired in 2017. The proportion of female graduates hired is at 39%, even though the ICT industry was traditionally male-dominated.

Building a strong leadership bench

To support the progression of our young workforce into leadership roles, we offer skills development programs to transition our employees into more senior roles. In 2017, we organized 2,003 learning and development programs and seminars, with each staff receiving on average 12.3 training hours.

The Managerial Development Program enables participants to gain essential leadership skills such as effective coaching, effective delegation and creating an environment of respect and trust. Nearly 430 staff members have taken part in this program since its creation in May 2016.

The Supervisory Development Program aims to facilitate an easy transition for new hires and recently promoted staff at the supervisory level. Each course module focuses on a different set of supervisor skills, including how to motivate staff, promoting team diversity, and how to provide constructive feedback. With a class size of 30 individuals, this program has been run 16 times since May 2016.

To develop leaders who are entrepreneurial, agile and can communicate effectively in a dynamic business environment, we have introduced a Future Leaders Development Program at the middle management level in various business units. The objective of the program is not only to strengthen participants' staff management and customer service skills, but also to enhance business acumen and help them develop the type of innovative and entrepreneurial thinking that leads to cutting-edge product and service ideas and pioneering business strategies.

Cultivating our knowledge base

We are very fortunate to have staff members who have contributed many years of dedication, commitment and loyalty to the Company's growth and accomplishments. In 2017, we presented Long Service Awards to 256 colleagues for their 25 years of service.

In 2017, we had 136 staff retiring with an average of 33.5 years of service with the Company. We have measures in place to facilitate the transfer of knowledge from the highly experienced retiring generation to younger potential future leaders.

3.4 Healthy and Safe Workplace

Employee safety is of paramount importance and we make every effort to provide a safe working environment. Accident prevention and business productivity go hand in hand and deserve equal consideration when selecting new designs, procedures and equipment.

Our Occupational Safety & Health (OSH) Safety Management System has been in operation since 2005. The System is regularly audited and certified as Level Three on the Occupational Safety & Health Council's Continual Improvement Safety Program Recognition of System (CISPROS).

The OSH Unit provides advice, information and training on OSH Issues. In 2017, the Unit launched the Group Safety Charter to uplift our safety standard and strengthen the safety culture.

To ensure employee awareness of safe and healthy workplace behaviors, we provide different trainings for staff members at all levels, including:

- Training of OSH ambassadors and fire safety ambassadors
- Certification in first aid, workplace noise assessment and confined space training
- Internal safety auditor training and accident investigation skills
- Training for staff on site, including ladder assessor training

To further embed a safety culture throughout the Group, we have appointed members of staff to act as Designated Office Coordinators, Designated Fire Officers and First Aiders. These individuals are responsible for carrying out safety inspections to eliminate hazards and providing first-aid assistance in the event of an accident.

Smart Antenna Loader

We encourage staff participation in contributing ideas on OSH improvement.

HKT was presented the Safety Enhancement Program Silver Award for its "Smart Antenna Loader 1.0" project at the 16th Hong Kong Occupational Safety and Health Award ceremony organized by the Occupational Safety and Health Council in 2017.

The loader helps to reduce the safety risks of at-height work by assisting workers to lower antenna poles safely when carrying out maintenance work at cellular sites with rooftop antennas.

Riding on this success, the team is now working on "Smart Antenna Loader 2.0", with the aim of making the device lighter and more portable for widespread use.

3.5 Caring for Staff Well-being

We recognize the importance of supporting our people's personal wellness. We have a set number of weekly working hours for each category of employee and a staff roster system to maintain a level of manpower that strikes an appropriate balance between employee well-being and the need to ensure customer satisfaction. All working hours and rest periods are in compliance with the Employment Ordinance and other relevant employment laws and regulations.

To encourage our employees to maintain a healthy lifestyle, we offer two sports recreation sites for staff. Our Sports and Interest Group (SIG) coordinates a number of staff sports teams which competed and won numerous awards in group matches organized by the Inter-Hong Games Association in 2017. This year, the SIG oversaw the running of 16 sports teams, ranging from dragon boating to badminton, and five interest groups such as chess and photography. These activities also help to foster team spirit.

We implement family-friendly measures to make it possible for our people to fulfill both their family and work obligations. We support new mothers by providing special facilities such as designated feeding rooms in offices.

We run regular "Lunch and Learn" sessions on a variety of topics to boost staff well-being and we organized 20 health talks in 2017. These informal training and information sessions help to reinforce our corporate culture and boost employee morale. Maintaining good personal financial health also improves the well-being of our staff members. This year, we organized six sessions of Workplace Financial Wellness workshops for pre-retirees to prepare for their retirement life. Furthermore, we have in place an Employee Assistance Program that provides access to external psychological counselling services.

4. OUR CUSTOMERS

We are committed to serving our customers to the best of our ability by continually elevating our level of service excellence. It is our objective to gain customer confidence in our products and services, and to provide sufficient information to enable customers to make informed choices.

OBJECTIVES

- **Provide reliable and quality services and products**
- **Meet and anticipate customer needs**
- **Maintain high quality customer service**
- **Safeguard personal data and information**

MEASURES

- **Meet and exceed performance targets**
- **Continuous innovation**
- **Promote customer service excellence**
- **Privacy and personal data policies**

We adhere to applicable laws governing individual privacy and commercially sensitive information, including those that relate to materials used in our products, advertising and labelling. We have implemented a comprehensive range of measures and procedures to protect, safeguard and control access to inappropriate content by young users. We meet government and statutory body requirements under relevant legislation and laws, including but not limited to the Telecommunications Ordinance, license conditions and codes of practice issued by the Office of the Communications Authority (OFCA).

As a responsible company, we are cautious about disseminating appropriate content to different audiences via our licensed pay and free TV platforms. We strictly comply with the Broadcasting Ordinance along with other relevant rules and legislation. Should a program contain content unsuitable for underaged viewers, such as violence, strong language, or nudity, we use parental lock, on-screen classification symbol, and advisory messages to inform of such content, thereby protecting children and underaged audience's viewing interests. Our media business also provides age-appropriate content for children, this includes kid-centric channels such as Junior Pack.

4.1 Reliable Services and Products, Responsible Network Management

Our stringent procurement procedures ensure that we partner with companies that can provide safe, well-tested and reliable products. We have designated teams looking after the development and management of various customer services and products in the Group. To ensure the safety and reliability of our services and products, and those of third party suppliers and manufacturers, we maintain various product reliability processes including meeting relevant ISO standards, obtaining corresponding certification and meeting prescribed government/statutory body requirements.

The provision of highly reliable services requires responsible network management. To uphold the integrity of our network, our Engineering Team ensures that the Group is in full compliance with OFCA requirements to manage all incidents. To assure customers of our reliable service, we publish our performance pledges on our website.

We achieved our service availability and service restoration targets for 2017.

Item	Performance Target	Actual Performance in 2017
csl		
Network Reliability[2]	99%	100%
Service Restoration[3]	< 60 minutes	100%
NETVIGATOR		
Network Stability[4]	99.99%	99.99%
Service Restoration[5]	99%	99.94%

PCCW Solutions aims to provide a stable, reliable and high performing data center network to customers. Our Powerb@se MCX10 Data Center in Kwai Chung is Uptime Institute-certified[6]. The core infrastructure of our data centers provides full resilience for Internet connectivity via Data Center Interconnection (DCI) network. The DCI network is made up of fiber connections distributed in multiple locations across Hong Kong. Our de-centralized network ensures that our data centers have back up in case of incidents. Moreover, our data centers are equipped with up-to-date Distributed Denial-of-Service (DDoS) mitigation system to protect our customers against DDoS attack[7], a very common cyber security threat.

Building for tomorrow, today

We strive to anticipate and meet the ever-changing communication needs of people in Hong Kong and enhance their quality of life. In 2017, HKT introduced the NETVIGATOR 4x1000M Multi-Use Broadband Service that enables the various members of a family to simultaneously pursue their individual online interests (such as video streaming and gaming) while enjoying high-quality service that offers a minimum guaranteed speed, and a high level of data privacy and security.

HKT's Fiber-To-The-Building (FTTB) coverage reached 88.3% and Fiber-To-The-Home (FTTH) coverage reached 85.6% of all households in Hong Kong.

FTTB coverage

88.3%

FTTH coverage

85.6%

Our mobile communications network of more than 3,000 sites provides comprehensive mobile coverage in Hong Kong, including in all transportation tunnels and along all railway lines. We also have dedicated indoor and outdoor sites at major university campuses. We provide fiber connectivity to over 500 schools in Hong Kong to support the deployment of high-speed broadband and Wi-Fi in education.

In 2017, 3,400 members of our engineering staff received more than 9,000 days of training and professional development. Our engineers hold a range of certifications and accreditations in IT and product knowledge, etc. As of end of 2017, our engineers held a total of 1,882 professional certificates and institution memberships.

2 Availability of the core network or core network uptime in a set observation period.
3 Mean time for recovering a fault in the core network following its discovery and identification.
4 Availability of broadband network.
5 Provide restoration of services for customers within two calendar days.
6 The Uptime Institute is a well-recognized global standard that rates and certifies data centers' performance and efficiency, it ensures corporates' sustainable IT performance and 24/7 reliable availability.
7 Distributed Denial-of-Service (DDoS) attack is a cyber threat that can shut down corporates' website and data centers entirely.

4.2 Customer Service and Satisfaction

In 2017, portable ramps were provided at seven csl/1O1O shops and nine HKT shops with entrance steps to enable easier access by wheelchair users and the elderly. Addresses of these retail shops are published on our corporate website.

Open and direct communication with our retail customers is vital to maintaining and improving our high level of customer service. Our customer service staff can be contacted via various channels, including service hotlines, website live chat, online enquiry, Facebook, e-mail, post or fax, as well as in person at retail stores and service centers.

My HKT is an e-platform that offers customers access to a wide range of services. Customers can manage their e-bills and get instant online support. As of end of 2017, My HKT had 1.05 million registered accounts.

Ensuring quality standards

Customer centric thinking is a core PCCW value. PCCW Solutions ensures that our products and services consistently meet the needs of our enterprise customers. In accordance with ISO 9001 and ISO 20000 standards, PCCW Solutions has established a quality management system (QMS) which defines quality management mechanisms across all business processes, including customer service. Our QMS is governed by our Quality Policy and Quality Manual. The QMS is led by the Head of Delivery Excellence and composed of Quality Representatives from multiple teams.

HKT also aims to provide quality service across the entire spectrum of our business. Our performance targets are set out in our service charter, which can be viewed on our corporate website. We value customer feedback on our products and services. Where a response is required, we aim to provide an initial reply within three working days and to resolve complaints within four working days. In 2017, over 95% of customer complaints were handled within four working days, which is a satisfactory level in the industry. As part of our ongoing service enhancement efforts, our dedicated service management team and technical experts work collaboratively to identify and address the root cause of an issue or complaint to reduce the chances of a recurrence.

A Call Monitoring Program assesses the performance of our customer service specialists, who were also required to receive up to 10 hours of call service training per month, amounting to an average of over 100 hours per person in 2017.

We also invite customers to participate in a Customer Transaction Survey and Net Promoter Score Survey at the end of each call and visit to help us evaluate our service quality and gain valuable customer feedback. Furthermore, our Mystery Shopper Program is an ongoing service performance benchmarking tool. Each retail location is audited at least twice a month. Over 1,800 Mystery Shopper visits take place annually across our retail locations.

In 2017, PCCW received 37,894 compliments from our customers[8], while the number of complaints decreased from 3,007 in 2016 to 2,153. In a recent customer satisfaction survey, 82% of customers responded that they were "satisfied" or "very satisfied" with the performance of our customer service specialists. Reports on customer suggestions, compliments and complaints are regularly reviewed by management.

Customer compliments

37,894

In addition, we participate in the Customer Complaint Settlement Scheme operated by the Communications Association of Hong Kong. The scheme offers a non-judicial forum for resolving deadlocked disputes between customers and telecommunications service providers.

[8] Individual customers from fixed-line, NETVIGATOR broadband, mobile, Now TV and ViuTV businesses.

Service excellence awards

To help drive our efforts to continuously upgrade our service, we have in place Service Excellence Awards (SEA). SEA is open to all staff and certain external contractor 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.

Colleagues from the Media group receive the SEA award.

4.3 Customer Data Privacy and Security

It is essential that our customers can trust us to safeguard their personal information. Ensuring the privacy and security of customer data is a key operating principle and top priority for the Group.

In addition to complying with relevant laws and regulations, our robust governance structure and comprehensive range of information privacy and data-security procedures protect individual privacy and safeguard commercially sensitive information. Our employees also receive regular training on data privacy-related issues. In 2017, there were no known issues of non-compliance in this area.

Our ISO 27001-certified IT security management systems keep our customer information secure. The systems also help us assess risk and identify new security measures. We rigorously follow the guidelines set out in our Document Retention Policy, Corporate Security Policy and Corporate Security Principles for securely storing physical records containing personal data. Staff access to personal customer data is granted strictly on a "need-to-know" basis and access to records and data without authorization is strictly prohibited.

We maintain substantial security infrastructure, including anti-virus and anti-spam software, network intrusion prevention systems, data loss protection and, more recently, Threat Intelligence Exchange and Advanced Threat Defense infrastructure, to minimize cyberthreats and the potential occurrence of malicious software infections, hacking attempts and accidental/deliberate attempts to misappropriate corporate data. Our internal IT and support teams are trained to monitor our network to detect any suspicious traffic and prevent potential cyber risk.

Our NETVIGATOR broadband Internet service provides customers with information and advice on identifying suspicious online content and activities such as phishing e-mails through its "Safe Internet Tips" and "Customer News" channels. Our network engineers will also immediately take necessary security measures, such as blocking any new incoming messages from the phishing e-mail sender addresses and regularly updating our e-mail anti-spam system. Customers can also stay informed about online threats by following our NETVIGATOR and customer service Facebook pages, where relevant notifications are posted.

5. OUR SUPPLY CHAIN MANAGEMENT

Our commitment to maintaining the highest ethical and professional standards not only applies to our own business operations but also those of our suppliers and business partners. We aim to build trusting supply chain relationships as we work together to deliver quality services and products. We engage over 2,000 suppliers, from whom we source a wide range of goods, equipment, materials and services. Around 75% of our suppliers are based in Hong Kong.

OBJECTIVES

- **Encourage suppliers and contractors to adopt sustainable initiatives**
- **Zero bribery and corruption**

MEASURES

- **Group Purchasing Policy and Principles**
- **Supplier Code of Conduct**
- **Annual performance review for major suppliers and contractors**
- **Regular supplier reviews**

All PCCW suppliers must adhere to our Supplier Code of Conduct (the "Code"), which clearly communicates our expectations. The Code's requirement includes full compliance with applicable laws and regulations, including strict adherence to occupational health and safety laws. Suppliers must also respect basic human rights, ensure their operations are free from forced labor and child labor, and manage their operations with consideration for the environment.

Any acts of bribery and corruption are strictly prohibited. We have well-established procedures in place for staff to report concerns relating to potential conflict of interest. Our "no conflict of interest" standard is set out in our CR Policy and Bribery, Gifts and Entertainment Policy.

We actively encourage our suppliers to adopt environmentally and socially responsible behavior by making them aware of our own CSR commitments. Our purchasing and procurement decisions are governed by our Group Purchasing Policy and Principles, through which we integrate social responsibility considerations into our supplier selection process.

5.1 Supplier Selection and Monitoring

When assessing new suppliers, we go beyond quality, cost, service and delivery capabilities to consider their commitment to CSR. Potential suppliers, vendors and business partners are vetted by our stringent procurement procedures prior to their engagement with us, which may include completing an assessment survey that enables us to evaluate their performance.

Our Group Purchasing and Supply Department undertakes annual performance reviews with our major suppliers and contractors, which form an important part of our process for monitoring the overall performance of our business partners, including adherence to our Supplier Code of Conduct. Any unsatisfactory ratings or areas of concern are communicated to the relevant supplier for rectification or improvement. If no improvement is observed or the breach of standards is significant, we will consider terminating the contract and, in the worst cases, blacklisting the supplier. In addition to this major annual review, we conduct regular supplier reviews and visits throughout the year. In 2017, we conducted 100 supplier visits and took the decision to blacklist four suppliers as they were not able to meet our expectations and requirements.

As an ISO 9001:2008-certified company, our quality management system ensures that our products consistently meet regulatory requirements and customer expectations. In 2018, we aim to achieve the ISO 9001:2015 standard. ISO 9001:2015 places greater emphasis on quality risk management with the adoption of the "High Level Structure", which applies the "Plan, Do, Check, Act" model for continuous improvement in quality management across our procurement process.

6. OUR ENVIRONMENT

PCCW is committed to protecting the environment. We integrate environmental sustainability into our business operations through internal policies and guidelines, which include:

- Energy and Water Management Policy and Guidelines
- Gas Emissions Reduction Policy
- Recycling procedures and programs

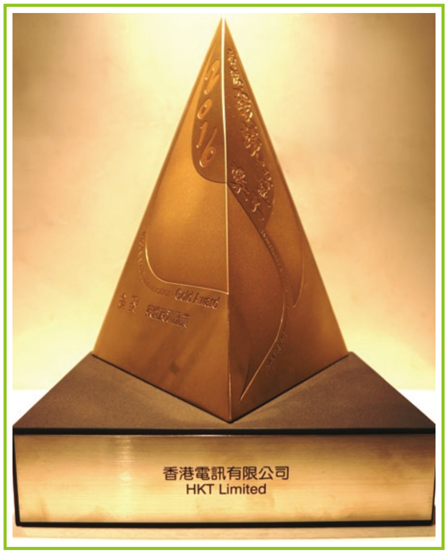
OBJECTIVES

- **Reduce energy consumption and carbon emissions**
- **Responsible waste management**
- **Help customers become more environmentally friendly**

MEASURES

- **Modernize data centers, exchange buildings, equipment and infrastructure**
- **Upgrade and electrify our fleet**
- **Promote recycling**
- **Develop green ICT solutions to optimize and reduce resource consumption**

Our ongoing environmental protection and green management efforts have received great recognition. In 2017, HKT received the Gold Award in the media and communications sector at the Hong Kong Awards for Environmental Excellence (HKAEE) 2016. The HKAEE Award is regarded as one of the most prestigious and reputable award schemes in Hong Kong. HKT was awarded for its best performance in environmental management and serving as an excellent example for our peers in leading the Hong Kong community to create a more sustainable environment.



6.1 Sustainable Resource Use

We strive to be a good steward of natural resources through robust environmental management, and investment in and adoption of new technology.

Energy use

Our data centers, exchange buildings, telecom/IT equipment, infrastructure and offices account for most of our energy consumption. The Facilities Management Team is responsible for implementing new technologies and procedures to reduce electricity consumption. For exchange buildings, we review our energy usage and management systems every three months. We have also established optimal temperature set-points of 24°C to 26°C for offices, buildings and facilities.

Mr. Peter Lam, Managing Director of Engineering (center), receives the Biggest Units Saver Award.

We have been upgrading our facilities since 2004. To date, we have replaced conventional air-cooled systems for more energy efficient water-cooled chillers at 25 exchange buildings. Air conditioning currently accounts for about 30% to 35% of our total electricity usage, down from about 40% in 2012. In 2018, we will replace more existing chillers with water-cooled systems. These upgrades will lead to a 20% reduction in energy consumption of these chillers[9].

For four consecutive years, HKT has won the Biggest Units Saver Award (Organization) of the Power Smart Energy Saving Contest organized by Friends of the Earth (HK). From June 2016 to May 2017, we recorded an eight million kilowatt hour (kWh) reduction in the electricity consumption of our exchange buildings resulting from network modernization and installation of water-cooled chillers.

Our data centers are designed and maintained to the highest level of environmental standards. All power supplies including Uninterruptible Power Supplies (UPS), backup generators, air conditioning systems and other electrical and mechanical signaling services for our facilities have adopted the most advanced environmentally friendly technologies and measures. We have adopted "hot aisle/cold aisle" server rack layout design strategy, along with cold aisle-containment. This helps to optimize cooling efficiency through separating cold air supply to the server rack inlet and hot air ejected from servers.

Our efforts in the data center have earned us the LEED (Leadership in Energy and Environmental Design) Platinum accreditation and ISO 14001:2015 certification for Environmental Management System (EMS).

9 Estimation of reduction is based on information in EMSD guidance "Water-cooled Air Conditioning Systems (WACS)": https://www.emsd.gov.hk/en/energy_efficiency/water_cooled_air_conditioning_system/index.html.

Carbon emissions

We strive to reduce our greenhouse gas emissions through enhancing energy efficiency and reducing energy consumption across our operations. Our efforts in this regard include:

Fleet

We use more efficient and environmentally friendly vehicles to help protect human health and the environment. In 2017, we acquired five electric vehicles and upgraded 18 vehicles that had been in use for more than 10 years. In the next four years, we will gradually upgrade 60 more vehicles, representing 30% of our fleet.

Refrigerants

The Montreal Protocol requires the phasing out of ozone-depleting hydrochlorofluorocarbons (HCFCs) by January 2020. We are continuing to replace our remaining HCFC-based air conditioning systems with more environmentally friendly refrigerants (e.g. hydrofluorocarbons).

E-billing

We offer our fixed-line, eye, IDD, NETVIGATOR broadband, mobile and Now TV customers the option to receive account statements and other notices in electronic rather than paper format. 98% of our broadband customers, 97% of mobile customers, 86% of Now TV customers, and nearly 34%[10] of our fixed-line, eye and IDD customers signed up for e-billing. In 2017, nearly 18 million e-bills were generated, which collectively saved 48 million sheets of paper.

We began voluntarily providing our carbon emissions data to the Environmental Protection Department's Carbon Footprint Repository for Listed Companies in Hong Kong in 2014, making us one of the first companies to engage in this non-mandatory environmental reporting practice.

[10] E-bill service was offered to fixed-line, eye and IDD customers in November 2016. There are indications that customers have been gradually taking up this option.

6.2 Waste and E-waste Management

Our approach to waste management reflects the key principles of the waste hierarchy: avoidance at source, reuse, recycling and reprocessing, proper waste treatment and responsible waste disposal. We implement and regularly review the Company's recycling practices and programs, and raise staff awareness of best practices for resource conservation.

Our recycling programs

We have programs promoting the recycling of used toner and ink cartridges, paper, scrap metals (which include copper, iron and steel), as well as scrap materials such as scrap cables, scrap telephones, obsolete devices and accessories, modems and router, set-top boxes, waste electrical and electronic equipment (WEEE) and transmission equipment.

In 2017, we launched a Printer Cartridge Collection Program. Used cartridges are sent for refill or recycling, depending on their condition. Those that cannot be reused will be dismantled by our recycling partner. For every cartridge collected, our recycling partner will make a donation to local environmental charity The Green Earth to support its environmental education initiatives.

E-waste recycling

Our mobile business has run the "Help Yourself • Help the Needy • Help the Earth Handset Recycling Program" since 2015. This initiative allows customers to donate their old mobile phones and accessories, such as batteries and chargers, at our shops. Our Government-endorsed recycling contractor collects donated items and checks their condition. Handsets in good condition are refurbished and sent to a network of social organizations which then distribute them to low income families. In 2017, a total of 12,806 mobile phones and accessories were collected, of which around 30% were donated to the underprivileged. We also donated computers and equipment to the underprivileged via Caritas Computer Workshop.

Hazardous waste

Although our Company produces limited hazardous waste, we must still responsibly dispose of items such as florescent tubes, industrial batteries, WEEE and general office batteries. We hire specialist contractors and licensed waste collectors to handle the recycling and management of such waste.

Non-hazardous waste

Our non-hazardous waste consists of general office waste and construction waste generated by the renovation of our retail outlets. To ensure our waste disposal methods are in line with local regulations, we engage professional cleaning service providers and contractors to handle this waste.

Environmental Assessment for Ultra Express Link Project

To meet the rising demand for high speed and high capacity connectivity from data center operations, we are constructing the Ultra Express Link, a three-kilometer-long submarine cable connecting Tseung Kwan O Industrial Estate (TKOIE) and Chai Wan. This cable will not only provide robust, reliable, lower latency and diverse connectivity, but will also support the development of TKOIE into an important Asian data center hub.

We assessed the potential environmental impacts of this project before commencing work, and have established the following measures to minimize these impacts.

- Stockpiles of materials will be covered with tarpaulin or similar fabric to minimize run-off to the adjacent marine waters during the rainy season.
- All construction waste and drainage will be handled and/or disposed of in accordance with the Waste Disposal Ordinance.
- Relevant standard mitigations set out in the Air Pollution Control (Construction Dust) Regulation will be implemented to minimize dust emissions.
- To reduce noise disturbance in adjacent residential areas, various measures have been implemented, such as the use of quiet Powered Mechanical Equipment (PME) and installation of noise-reducing barriers.

Following its approval by the Environmental Protection Department, work on the project commenced in September 2017 and is expected to be completed in 2018.

6.3 Green ICT Solutions

We help our customers adopt more environmentally friendly lifestyles and business practices by incorporating green ideas into the design of our products and services, which include solutions for electric vehicles (EV), homes and schools.

In partnership with CLP Holdings Limited, HKT addresses the entire EV charging process and offers a one-stop-service to assist individuals and businesses with green charging solutions. Through this Smart Charge service, we aim to encourage the wider adoption of EVs and contribute to creating a cleaner environment.

Our Smart Living service utilizes advanced technology to bring life-enhancing comfort, convenience and efficiency into the homes of our customers. By using either a customized remote control or mobile devices, our customers are able to automate and easily control home settings such as lighting, curtains and air-conditioning, as well as entertainment and security systems. These enhanced controls also enable customers to better manage their energy use and expenses.

HKT education has developed the HKTE Parent app for parents to receive and respond to school notices, including the ability to sign and submit school e-notices using their smartphones. This digital solution also allows schools to receive feedback from parents in a timely manner and streamline administrative tasks. HKTE Parent has reduced the collective consumption of paper at participating schools by about one million sheets per year.

The process of student admissions has traditionally involved a lot of paperwork. To help schools manage admissions more efficiently while enhancing their environmental performance, we have created an e-admission system solution for kindergartens, primary and secondary schools. The system enables applicants to submit admission forms online. The system was also adopted by the largest music and speech festival in Hong Kong in 2017.

6.4 Employee Environmental Awareness

Our internal newsletter publishes a regular "Green Matters" column, which provides information on environmental issues and the Group's green initiatives. We have launched a set of "Go Green" labels in all our offices. Our staff are reminded to turn off equipment that is not in use and to save water, paper and food.

Green awareness activities offered to colleagues include learning how to turn food waste into eco-enzyme detergent.

Green volunteering

Our Environmental Protection Volunteer Service Group has been active for over 20 years. In 2017, over 370 volunteers participated in 14 environment-related programs in partnership with seven charity and social services groups. Program highlights include:

Organization	Program	
Green Power	**Green Power Hike** On-site support for the annual fundraising activity aimed at encouraging our future generations to appreciate and cherish nature.	
WWF-Hong Kong	**Weeding at Mai Po Nature Reserve** Volunteers removed invasive plants to protect the natural ecosystem in this conservation area.	

Other environmental programs

We participated in the following initiatives in 2017:

Organization	Program
WWF-Hong Kong	**WWF Earth Hour** The event aims to raise public awareness of low-carbon living. We switched off the signage lights of 13 office buildings, exchanges and shops for one hour on March 25.
Friends of the Earth (HK)	**Suits for Success** Nearly 300 pieces of business clothing and accessories collected from our colleagues were donated to young graduates from underprivileged families.

ASSURANCE REPORT

HKQAA
HONG KONG QUALITY ASSURANCE AGENCY
香港品質保證局

VERIFICATION STATEMENT

Scope of Verification

Hong Kong Quality Assurance Agency (HKQAA) has been engaged by PCCW (PCCW) (SEHK: 0008) to undertake an independent verification for the "Our Environment" section and the related environmental performance data stated in its Environmental, Social and Governance Report 2017 (The Report).

The scope of HKQAA's verification covers the data and information associating to PCCW's environmental performance as described in the "Our Environment" and "Performance Data Summary" sections of The Report for the period of 1st January 2017 to 31st December 2017.

Level of Assurance and Methodology

The process applied in this verification was based on relevant international standard. Our evidence gathering process was designed to obtain a reasonable level of assurance as set out in the standard for the purpose of devising the verification conclusion. The extent of this verification process undertaken was provided for the criteria set in The Environmental, Social and Governance Reporting Guide of The Stock Exchange of Hong Kong Limited.

In order to understand the process that PCCW adopted to ascertain the key environmental issues and impacts, the Report compilation process was discussed. Also, system and process for collecting and collating environmental performance data, as well as the overall presentation of these data in The Report were verified. Our verification procedure performed covered reviewing of relevant documentation, interviewing responsible personnel with accountability for preparing the reporting contents and verifying the selected representative sample of data and information. Raw data and supporting evidence of the selected samples were also thoroughly examined during the verification process.

Independence

PCCW is responsible for the collection and presentation of the information presented. HKQAA does not involve in calculating, compiling, or in the development of the Report. Our verification activities are independent from PCCW.

Conclusion

On the basis of our verification results and in accordance with the verification procedures undertaken, it is the opinion of the HKQAA's verification team that:

- The Report illustrates PCCW's environmental performance in a balanced, comparable, clear and timely manner;
- The environmental performance data and information states in the Report are reliable and complete.

The Report reflects appropriately PCCW's context and materiality of its environmental issues and allows stakeholders to have a clear understanding of its commitments and stewardship towards environmental management.

Signed on behalf of Hong Kong Quality Assurance Agency

Connie Sham
Head of Audit
February 2018

EXTERNAL CHARTERS AND MEMBERSHIPS

External Charters

Name of Association	Name of Charter
Environment Bureau	Charter on External Lighting
Labour Department/ Occupational Safety & Health Council	Occupational Safety Charter
Occupational Safety & Health Council	Charter on Preferential Appointment of OSH Star Enterprise

Memberships

Name of Association	Type of Membership
Business Environment Council (BEC)	Council Member
Employers' Federation of Hong Kong	Corporate Member
Girls Go Tech, The Women's Foundation	Technology Partner, Council Member
The Green Earth	Green Earth Companion, Water Category 2017-2018
The Hong Kong Council of Social Service	Caring Company Patron's Club – Coral Membership 2016/17
The Hong Kong Institute of Human Resource Management (HKIHRM)	Corporate Member
WWF-Hong Kong	Corporate Membership Program (CMP) – Silver Membership 2016/17

PERFORMANCE DATA SUMMARY

HKEX ESG KPIs		2017 Data
A. Environmental		
Aspect A1: Emissions		
General Disclosure	**Disclosure statement**	Refer to 6. Our Environment section
KPI A1.1	**The types of emissions and respective emissions data**	
	I. Sulfur oxides (SOx) – Direct	6.62 kg
	II. Nitrogen oxides (NOx) – Direct	6,613 kg
	III. Particulate matter (PM) – Direct	308.81 kg
KPI A1.2	**Greenhouse gas (GHG) emissions and intensity**	
	I. GHG emissions - Scope 1[11]	6,497 tonnes CO_2-e[12]
	II. GHG emissions - Scope 2[13]	248,652 tonnes CO_2-e
	III. GHG emissions - Scope 3[14]	968.15 tonnes CO_2-e
	Total GHG emissions (I+II+III)	256,117 tonnes CO_2-e
	GHG emissions intensity per employee[15]	17.29 tonnes CO_2-e /employee
KPI A1.3	**Hazardous waste produced**	
	I. Solid waste[16]	337.25 tonnes
	II. Waste electrical and electronic equipment (WEEE) disposal	162,293 pieces
KPI A1.4	**Non-hazardous waste produced**	
	I. General waste[17]	889.00 tonnes
	II. Construction waste[18]	156.50 tonnes

11 Scope 1 emissions generated from HFC and PFC emissions for refrigeration; diesel from fleet and standby emergency generators, and petrol from fleet.
12 "tonnesCO_2-e" is the short form of tonnes carbon dioxide equivalent.
13 Scope 2 emissions generated from the electricity consumed by PCCW major operations with individual meters.
14 Scope 3 emissions generated from our office paper consumption.
15 As at December 31, 2017, the number of employees in Hong Kong was 14,810, which is also the basis for electricity and water intensity calculations.
16 Solid waste includes industrial battery (valve-regulated lead-acid battery), office batteries and fluorescent tubes.
17 General waste includes mainly general office waste.
18 Construction waste from renovation of shops.

HKEX ESG KPIs		2017 Data
KPI A1.5	**Measures to mitigate emissions and results**	Refer to 6. Our Environment section > 6.1 Sustainable Resource Use
KPI A1.6	**Waste reduction initiatives and results**	
	I. Scrap materials recycled[19]	3,413,388 pieces
	II. Toner and ink cartridges recycled	1,983 pieces
	III. Paper recycled	145.45 tonnes
	IV. Scrap metals recycled[20]	26.44 tonnes
Aspect A2: Use of Resources		
General Disclosure	**Disclosure statement**	Refer to 6. Our Environment section
KPI A2.1	**Direct and/or indirect energy consumption by type and intensity**	
	I. Electricity	394,477,441 kWh
	II. Electricity intensity per 1,000 employees	26.64 kWh/1,000 employees
	III. Towngas[21]	N/A
	IV. Petrol fuel – vehicle fleet	136,701 L
	V. Diesel fuel – vehicle fleet	283,618 L
	VI. Diesel fuel – standby emergency generators	54,882 L
KPI A2.2	**Water consumption in total and intensity**	
	I. Water[22]	409,271 m^3
	II. Water intensity per employee	27.63 m^3/employee

[19] Scrap materials such as scrap cables, scrap telephones, obsolete devices and accessories, modems and router, set-top boxes, WEEE and transmission equipment.
[20] Scrap metals recycled include copper, metal and steel.
[21] Towngas is primarily consumed at our staff canteens. The operation of these canteens is outsourced to third-party operators and we do not have direct operational control over this gas consumption.
[22] Water consumption of PCCW major operations with individual meters.

HKEX ESG KPIs		2017 Data
KPI A2.3	**Description of energy use efficiency initiatives and results achieved**	Refer to 6. Our Environment section > 6.1 Sustainable Resource Use > Energy use > 6.4 Employee Environmental Awareness
KPI A2.4	**Description of water efficiency initiatives and results achieved**	Water consumption is mainly due to general office/ building use. There is no material concern about water consumption. Please also refer to 6. Our Environment section > 6.4 Employee Environmental Awareness
KPI A2.5	**Total packaging material**	
	I. Shopping bags	21.89 tonnes
Aspect A3: The Environment and Natural Resources		
General Disclosure	**Disclosure statement**	Refer to 6. Our Environment section
KPI A3.1	**Description of significant impacts of activities on the environment and natural resources and the actions taken**	Our operations incur no material adverse impact on natural resources.

REFERENCES TO HKEX ESG REPORTING GUIDE

A. Environment		PCCW's Comments
Aspect A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	6. Our Environment
KPI A1.1	The types of emissions and respective emissions data.	Performance Data Summary
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Performance Data Summary
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Performance Data Summary
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Performance Data Summary
KPI A1.5	Description of measures to mitigate emissions and results achieved.	6. Our Environment > 6.1 Sustainable Resource Use
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	6. Our Environment > 6.2 Waste and E-waste Management, and Performance Data Summary

A. Environment		PCCW's Comments
Aspect A2: **Use of Resources**	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	6. Our Environment
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Performance Data Summary
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Performance Data Summary
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	6. Our Environment > 6.1 Sustainable Resource Use > Energy use > 6.4 Employee Environmental Awareness
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Performance Data Summary
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Performance Data Summary
Aspect A3: **The Environment and Natural Resources**	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.	6. Our Environment
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Performance Data Summary

B. Social		PCCW's Comments
Employment and Labour Practices		
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	3. Our People
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Note*
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Note*
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	3. Our People
KPI B2.1	Number and rate of work-related fatalities.	Note*
KPI B2.2	Lost days due to work injury.	Note*
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	3. Our People > 3.4 Healthy and Safe Workplace

* This KPI will be reported in the future.

B. Social		PCCW's Comments
Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	3. Our People > 3.3 Talent Progression and Succession Plan
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Note*
KPI B3.2	The average training hours completed per employee by gender and employee category.	We report on the average training hours per employee. For more details, please refer to 3. Our People > 3.3 Talent Progression and Succession Plan
Aspect B4: Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	3. Our People
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	3. Our People
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	N/A

* This KPI will be reported in the future.

Operating Practices		PCCW's Comments
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	5. Our Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	We engage over 2,000 suppliers, around 75% of them are based in Hong Kong. For more details, please refer to 5. Our Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	5. Our Supply Chain Management
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	4. Our Customers
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	4. Our Customers > 4.2 Customer Service and Satisfaction
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	4. Our Customers
KPI B6.4	Description of quality assurance process and recall procedures.	4. Our Customers > 4.2 Customer Service and Satisfaction
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	4. Our Customers > 4.3 Customer Data Privacy and Security

Operating Practices		PCCW's Comments
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	1. Corporate Social Responsibility at PCCW > 1.2 Our Policies
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	1. Corporate Social Responsibility at PCCW > 1.2 Our Policies
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	1. Corporate Social Responsibility at PCCW > 1.2 Our Policies
Community		
Aspect B8: Community Investment	General Disclosure 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.	2. Our Community
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	2. Our Community
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	2. Our Community

Forward-Looking Statements

This annual report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of PCCW about the business, industry and markets in which we operate.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- our ability to execute our business strategy to expand our businesses locally and overseas, including entering into business combinations, strategic investments and acquisitions and challenges in growing business organically;
- our ability to develop our growth businesses in media and IT services after the spin-off of the telecommunications business into HKT;
- possible negative effects of potentially new regulatory developments;
- increased competition in the Hong Kong media market and the IT services market;
- increased content costs, changes in customer viewing habits or changes in technology;
- increased competition in the Hong Kong telecommunications market;
- our ability to obtain additional capital;
- our ability to implement our business plan as a consequence of our substantial debt; and
- our exposure to interest rate risk.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of PCCW as at the date of this annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

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

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