INTERIM REPORT 2018

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 23,700 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).

STATEMENT FROM THE CHAIRMAN

It is my pleasure to report that PCCW's core businesses continued to perform satisfactorily in the six months ended June 30, 2018.

The Group's media segment comprising the pay-TV service Now TV, free TV service ViuTV and the pan-regional OTT video entertainment service Viu has amply demonstrated the Group's commitment to providing viewers with engaging and exclusive content, both in entertainment and sports. The exclusive broadcast of the 2018 FIFA World Cup™ this summer brought exciting viewing experience to our pay-TV customers and the wider TV audience in Hong Kong, resulting in improved performance of the media group. Viu OTT has also attracted more viewers with its premium Asian content and locally relevant programming from major content providers, as well as Viu's original productions.

With a full suite of IT solutions to help enterprises accelerate their digital transformation, PCCW Solutions continued to excel in Hong Kong while driving growth through market diversification in Southeast Asia. In view of increasing demand for data center and cloud services, PCCW Solutions has embarked on plans to build new facilities and expand existing ones in Hong Kong and mainland China. PCCW Solutions' offerings are also underpinned by a data center alliance network in more than 80 cities worldwide.

For the first half of 2018, HKT's operations continued to perform satisfactorily and recorded another growth of AFF (adjusted funds flow). This is despite the intense competition in the local broadband and mobile communications markets which exerts a degree of price pressure. Meanwhile, new business Tap & Go mobile payment has gained more traction.

On property, Pacific Century Premium Developments' premium office building in Indonesia, Pacific Century Place, Jakarta, is in full operation. Approximately 78% of the office space has been leased or reserved, and we anticipate the building to generate stable recurring rental income. Its other local and overseas projects are progressing well.

Entering the second half of the year, the global trade and economic environments are faced with new uncertainties. We will be monitoring these developments closely. Given the diversity and foundations of our business operations, we are cautiously optimistic about the Group's overall performance on a full-year basis.

Richard Li
Chairman
August 7, 2018

STATEMENT FROM THE GROUP MANAGING DIRECTOR

I am pleased to report the activities of the Group's media, IT solutions, telecommunications, and property segments in the first half of 2018 in the following sections.

BROADENING PAY-TV VIEWER SEGMENTS

PCCW's pay-TV business, Now TV, continued to strengthen its market leadership position in Hong Kong during the period with a wide range of entertainment and sports content offerings on a live or on-demand basis, highlighted by the exclusive 4K broadcast in Hong Kong of the 2018 FIFA World Cup™ in Russia from June. To further broaden our service offerings, Now TV launched Now E in May, an entertainment OTT platform with international and Asian dramas, movies and world-class sporting events for viewers with the millennial lifestyle. The popular appeal of the World Cup and the introduction of Now E have helped lift both our customer base and ARPU (average revenue per user) from the end of last year.

In July, we also announced that PCCW Media had secured the exclusive broadcast rights in Hong Kong of the English Premier League for the 2018/19 season and the rights for LaLiga of Spain up to the 2022/23 season. Now TV has further reinforced its position as the home of sports by offering Hong Kong viewers an unparalleled lineup of top class football and soccer leagues across several continents including A League (Australia), Bundes Liga (Germany), LaLiga (Spain), Ligue 1 (France), Premier League (England), Serie A (Italy), and Major League Soccer (the U.S.).

In addition to Now TV, customers of Now E may also enjoy premium sports content plus programming from our exclusive content partners such as HBO, MOViE MOViE, Now Baogu, Viu, and other top international program providers. Now E can be accessed via smartphone, tablet, PC and the newly introduced Now E Android TV Box, the first Google Android TV box offered by a Hong Kong operator which enables users to enjoy their favorite content and download games and TV apps from Google Play on a TV screen.

RECORD VIEWERSHIP FOR FREE TV

Of the 64 World Cup matches in Russia, nearly one-third of them – including the opening match, the two semi-finals and the final – were also broadcast live on PCCW Group's free TV service, ViuTV. ViuTV also produced a series of lead-in and ancillary programs such as interactive game shows and match viewing parties to enhance the viewing experience and to cater to the interests of viewers of all ages.

ViuTV achieved an average of 12 TV rating points for the 19 matches of the tournament scheduled for broadcast. Total reach of TV viewers amounted to approximately 4.1 million people, or 62% of Hong Kong's TV population.

In the second half of this year, ViuTV will continue to roll out attractive variety shows and dramas to sustain the expanded viewership. A local drama time belt is being introduced featuring romance, thriller and other genres of drama that are starred by leading artistes.

PAN-REGIONAL OTT LEADER

In addition to the domestic pay-TV and free TV services, PCCW also operates OTT media entertainment services in over 25 markets in Asia and the Middle East. At the end of June, Viu OTT video platform recorded over 20 million monthly active users across the 16 markets where it offers a premium service, representing a year-on-year growth of 62%. They consumed 14.8 billion video minutes in the first half of 2018 in more than 1.2 billion views, both more than doubling from a year ago.

As a leading brand in the pan-Asian region, Viu strategically blends together premium Asian content from renowned content providers, relevant local content in the respective markets, and Viu Original programming. We work with top Korean broadcasters to bring their latest variety shows and dramas to Viu's audience around the globe with local language subtitling. Viu also continuously expands its cooperation with local content providers and telecommunications company partners in various markets to increase its market penetration.

As an important initiative of Viu, we aim to bring about 70 titles comprising over 900 episodes of locally produced Viu Original content within 2018. Produced in Chinese, Indonesian, Malaysian, Filipino, Arabic and Indian languages, Viu Original spans the full spectrum of content genres.

ENABLING END-TO-END DIGITAL TRANSFORMATION

The Group's IT services flagship, PCCW Solutions, continued to rank first, for the ninth consecutive year, in Gartner Research's 2017 Hong Kong IT market share ranking that was announced in June. In the same month, the company was named Technology Company of the Year at the annual ComputerWorld Hong Kong Awards.

In addition to Hong Kong and mainland China, PCCW Solutions is expanding into the Southeast Asian markets and bringing our own IP and software of business critical systems outside Hong Kong to support enterprise digital transformation. Its first-half wins included a major contract to design and build a modern software-defined network and end-to-end IT systems for a telecom company in Singapore, and rollout of a digital insurance sales platform in Thailand.

To support companies in various industries to accelerate digital transformation, PCCW Solutions offers an Infinitum™ solutions suite, comprising cloud, AI (artificial intelligence), digital, advanced analytics and IoT (Internet of Things). PCCW Solutions unveiled in May Infinitum™ Visum, an interactive mirror which supports connectivity to IoT smart devices such as fitness trackers, digital scales, and entertainment applications. For example, Infinitum™ Visum may enable property developers to bring home-automation innovations to residents, empower hoteliers to revolutionize guest experiences and enable retailers to provide in-store virtual try-on. Using AI, analytics, blockchain and IoT technologies, PCCW Solutions will tailor make a "Farm to Plate" platform for provenance and supply chain orchestration for a major food manufacturer and distributor in Shanghai.

Our data centers in Hong Kong and mainland China have been highly utilized by and committed with clients. To address increasing demand including that from leading cloud service providers in the U.S. and China, PCCW Solutions will be building new facilities and expanding existing ones. During the period, we were also awarded a project to design and build a data center for a customer in mainland China. Meanwhile, the D-Infinitum Global Data Center Alliance, a data center network of 130 locations across 80 cities initiated by PCCW Solutions, welcomed a new partner in March. SCSK Corporation, a leading system integrator in Japan, joined the now 18-strong alliance to strengthen service capabilities in Asia.

In June, PCCW Solutions launched HABBITZZ, a premium online shopping platform with international and Hong Kong products in categories including electronics, health and wellness, beauty, toys, kids and babies, beverages and sports. As the e-commerce arm of PCCW Solutions, HABBITZZ adopts a customer-centric approach and uses innovative technology to deliver personalized shopping experience.

INNOVATIONS IN TELECOM SERVICES

Although the Hong Kong broadband and mobile communications markets continue to be characterized by intense competition, HKT has firmly held its market leader positions through innovation and value-added services. To prepare for 5G (5th Generation) mobile communications, HKT conducted 5G field tests in June with the results exceeding expectations.

Tap & Go has registered steady increases in both the number of user accounts and the transaction amounts settled through the service. We believe the Faster Payment System (FPS) which will soon be introduced by the Government will create more opportunities for Tap & Go.

To further differentiate HKT as a customer-focused company, The Club loyalty and rewards program offers throughout the year a wide range of activities and benefits to its members.

For commercial enterprises, HKT has launched a cloud-based service where enterprises can transform their surveillance video streams into intelligence for better service delivery, security and operational efficiency.

GOOD PROGRESS ON PROPERTY PROJECTS

On property, many tenants have moved into Pacific Century Premium Developments' (PCPD) premium office building in Indonesia, Pacific Century Place, Jakarta, which commenced full operation at the beginning of this year. About 78% of office space has been committed or reserved and there is continued interest from major companies in locating their regional headquarters or representative offices to the building.

As for the project in Hokkaido, Japan, the Park Hyatt Niseko Hanazono and Park Hyatt Niseko Hanazono Residences are expected to be completed in late 2019. The latter is well received by the market, with 90 of the total 114 units sold or reserved. PCPD is also progressing according to schedule regarding the first phase development of the project in Phang-nga, Thailand and the redevelopment of a prime site in Central, Hong Kong.

PCPD will continue to look for potential investment opportunities around the world.

LOOKING AHEAD

The Group's media businesses have charted clear strategies for growth – Now TV and Now E meet the needs of various viewer segments in Hong Kong with exclusive, premium Asian and international content including world-class sports; Viu OTT will continue to increase penetration in the overseas markets with localized programming and creative Viu Original productions; and ViuTV will ride on the World Cup momentum to engage Hong Kong TV audience with more local dramas and variety shows.

PCCW Solutions will benefit from the continuing trend of digital transformation as it offers a comprehensive suite of solutions and world-class data center facilities. PCCW Solutions will seek to replicate its success in Hong Kong in Southeast Asian markets with an aim to become a leading transformation enabler in the pan-Asian region.

HKT has again demonstrated its resilience amid intense competition in the telecommunications markets. It will continue to innovate to meet customers' connectivity demand and aspirations for smart lifestyles.

The Group will continue to explore and take advantage of synergies among our businesses to enhance the digital transformation of consumers and enterprises. We will also seek new risk-mitigated, sustainable growth opportunities with a view to maximizing value for shareholders in the medium to long term.

BG Srinivas
Group Managing Director
August 7, 2018

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, a member of HKT's Executive Committee and the Group Chief Financial Officer of HKT*, and an Executive Director of Pacific Century Premium Developments Limited (PCPD).

Ms Hui joined Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999. Since then, she has served the PCCW Group in various capacities in the past 19 years, including as Director of Group Finance of the PCCW Group from September 2006 to April 2007, and the Director of Finance of the PCCW Group with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was also the Chief Financial Officer of PCPD from July 2009 to November 2011.

Prior to joining Cable & Wireless HKT Limited, 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.

* Subsequent to the date of this report, Ms Hui became HKT's Group Managing Director and stepped down as HKT's Group Chief Financial Officer with effect from September 1, 2018.

LEE Chi Hong, Robert
Executive Director

Mr Lee, aged 67, 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 currently a Director and President of 中國通用技術(集團)控股有限責任公司 (China General Technology (Group) Holding Co., Ltd.#).

Mr Lu was an Executive Director and President of China Unicom (Hong Kong) Limited and 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 was 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 of China Unicom (Hong Kong) Limited (Unicom HK). He is a Director 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 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 54, 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 Senior Vice President 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. He was a Director of China United Network Communications Limited. In addition, Mr Shao serves as a Non-Executive Director of China Communications Services Corporation Limited and China Tower 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 Smart Commerce 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 Informa PLC which is listed on the London Stock Exchange (LSE). Mr Wei was a non-executive director of UBM plc (formerly listed on the LSE) which is now owned by Informa PLC.

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 79, 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 Executive Council of Hong Kong from 2005 to 2008 and 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 53, 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 57, 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 61, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Core revenue increased by 10% to HK$18,809 million
- Consolidated revenue increased by 10% to HK$18,974 million

- Core EBITDA was steady at HK$5,553 million
- Consolidated EBITDA was steady at HK$5,473 million

- Core profit attributable to equity holders of the Company from continuing operations increased by 70% to HK$368 million
- Consolidated profit attributable to equity holders of the Company from continuing operations increased by 131% to HK$185 million

- Basic earnings per share amounted to 2.40 HK cents

- Interim dividend of 8.91 HK cents per ordinary share

MANAGEMENT REVIEW

We are pleased to report that PCCW delivered a set of satisfactory financial results for the six months ended June 30, 2018. The results for the six months ended June 30, 2018 reflect the adoption of several new accounting standards and, for comparative purposes, the results for the six months ended June 30, 2017 and December 31, 2017 have been restated as if these new accounting standards had been in place during these periods.

During the period, core revenue increased by 10% to HK$18,809 million. Revenue at HKT Limited ("HKT") increased by 12% to HK$17,022 million as a result of steady growth in revenue from Telecommunications Services ("TSS") and Mobile Services and strong demand for mobile handsets. Revenue from the Media business grew by 7% underpinned by robust growth in the over-the-top ("OTT") services and the success of the 2018 FIFA World Cup™ broadcast on both the pay TV and free TV services. The Solutions business experienced modest growth as a result of fluctuations in project-related revenue, especially in the China market.

EBITDA for HKT grew by 2% to HK$5,639 million reflecting the steady revenue growth and sustained operating cost efficiencies. The Media business continued to make investments in the free TV and OTT services while the Solutions business initiated up-front investments to win and execute contracts secured in a number of newly expanded markets. As a result, core EBITDA was steady at HK$5,553 million.

The projects at PCPD have been progressing well and expected to contribute to the Group as scheduled.

Consolidated revenue for the six months ended June 30, 2018 increased by 10% to HK$18,974 million and consolidated EBITDA was steady at HK$5,473 million.

Core profit attributable to equity holders of the Company from continuing operations increased by 70% to HK$368 million. Consolidated profit attributable to equity holders of the Company from continuing operations increased by 131% to HK$185 million. Basic earnings per share from continuing operations was 2.40 HK cents.

The board of Directors (the "Board") has resolved to declare an interim dividend of 8.91 HK cents per ordinary share for the six months ended June 30, 2018.

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.

Continuing operations exclude the results and gain on disposal of the wireless broadband and related business component in the United Kingdom.

OUTLOOK

The results for the first six months of 2018 affirm the leadership positions in Hong Kong of the various business segments of the Group and the growth strategies that they have each embarked on.

The Group's media businesses have charted clear strategies for growth – Now TV and Now E meet the needs of various viewer segments in Hong Kong with exclusive, premium Asian and international content including world-class sports; Viu OTT will continue to increase penetration in the overseas markets with localized programming and creative Viu Original productions; and ViuTV will ride on the World Cup momentum to engage the Hong Kong TV audience with more local dramas and variety shows.

PCCW Solutions will benefit from the continuing trend of digital transformation as it offers a comprehensive suite of solutions and world-class data center facilities. PCCW Solutions will seek to replicate its success in Hong Kong in Southeast Asian markets with an aim to become a leading transformation enabler in the pan-Asian region.

HKT has again demonstrated its resilience amid intense competition in the telecommunications markets. It will continue to innovate to meet customers' connectivity demand and aspirations for smart lifestyles.

The Group will continue to explore and take advantage of synergies among our businesses to enhance the digital transformation of consumers and enterprises. We will also seek new risk-mitigated, sustainable growth opportunities with a view to maximizing value for shareholders in the medium to long term.

FINANCIAL REVIEW BY SEGMENT

For the six months ended HK$ million **Continuing operations**	Jun 30, 2017 *(Restated)*	Dec 31, 2017 *(Restated)*	**Jun 30, 2018**	Better/ (Worse) y-o-y
Revenue				
HKT	15,211	17,856	**17,022**	12%
HKT (excluding Mobile Product Sales)	13,519	15,398	**13,648**	1%
Mobile Product Sales	1,692	2,458	**3,374**	99%
Now TV Business	1,334	1,386	**1,392**	4%
Free TV Business	94	91	**99**	5%
OTT Business	337	381	**394**	17%
Solutions Business	1,685	2,317	**1,709**	1%
Other Businesses	–	–	**–**	–
Eliminations	(1,558)	(2,466)	**(1,807)**	(16)%
Core revenue	17,103	19,565	**18,809**	10%
PCPD	107	57	**165**	54%
Consolidated revenue	17,210	19,622	**18,974**	10%
Cost of sales	(8,402)	(9,942)	**(10,152)**	(21)%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(3,304)	(2,748)	**(3,349)**	(1)%
EBITDA[1]				
HKT	5,547	6,738	**5,639**	2%
Now TV Business	167	249	**198**	19%
Free TV Business	(104)	(116)	**(131)**	(26)%
OTT Business	(115)	(118)	**(144)**	(25)%
Solutions Business	378	701	**271**	(28)%
Other Businesses	(251)	(342)	**(193)**	23%
Eliminations	(21)	(41)	**(87)**	(314)%
Core EBITDA[1]	5,601	7,071	**5,553**	(1)%
PCPD	(97)	(139)	**(80)**	18%
Consolidated EBITDA[1]	5,504	6,932	**5,473**	(1)%
Core EBITDA[1] margin	*33%*	*36%*	***30%***	
Consolidated EBITDA[1] margin	*32%*	*35%*	***29%***	
Depreciation	(1,763)	(1,755)	**(1,784)**	(1)%
Amortization	(1,676)	(1,610)	**(1,680)**	0%
Gain/(Loss) on disposal of property, plant and equipment, net	1	(4)	**1**	0%
Other gains/(losses), net	25	(60)	**334**	>500%
Interest income	58	75	**71**	22%
Finance costs	(847)	(789)	**(893)**	(5)%
Share of results of associates and joint ventures	(35)	89	**(26)**	26%
Profit before income tax	1,267	2,878	**1,496**	18%

Note 1 *EBITDA represents earnings before interest income, finance costs, income tax, depreciation and amortization, 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 six months ended HK$ million	Jun 30, 2017 *(Restated)*	Dec 31, 2017 *(Restated)*	**Jun 30, 2018**	Better/ (Worse) y-o-y
HKT Revenue	15,211	17,856	**17,022**	12%
HKT (excluding Mobile Product Sales)	13,519	15,398	**13,648**	1%
Mobile Product Sales	1,692	2,458	**3,374**	99%
HKT EBITDA[1]	5,547	6,738	**5,639**	2%
HKT EBITDA[1] margin	*36%*	*38%*	***33%***	
HKT Adjusted Funds Flow	2,129	2,783	**2,205**	4%

HKT delivered a solid set of financial results for the six months ended June 30, 2018, reflecting the strength and resilience across its lines of core business as well as continued operating efficiency improvements.

Total revenue for the six months ended June 30, 2018 increased by 12% to HK$17,022 million, driven in particular by a strong demand for mobile handsets during the period. Excluding Mobile Product Sales, underlying revenue for the period increased by 1% to HK$13,648 million, as compared to HK$13,519 million for the corresponding period last year, supported by steady growth in revenue from both TSS and Mobile Services.

Total EBITDA for the period was HK$5,639 million, an increase of 2% over the same period in 2017. Profit before income tax was steady at HK$2,306 million while profit attributable to holders of share stapled units was HK$1,868 million. Basic earnings per share stapled unit was 24.67 HK cents.

Adjusted funds flow for the six months ended June 30, 2018 expanded by 4% to HK$2,205 million, compared to the same period in 2017. Adjusted funds flow per share stapled unit correspondingly grew by 4% to 29.12 HK cents compared to the same period in 2017.

HKT announced an interim distribution of 29.12 HK cents per share stapled unit.

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

Now TV Business

For the six months ended HK$ million	Jun 30, 2017 *(Restated)*	Dec 31, 2017 *(Restated)*	**Jun 30, 2018**	Better/ (Worse) y-o-y
Now TV Business Revenue	1,334	1,386	**1,392**	4%
Now TV Business EBITDA[1]	167	249	**198**	19%
Now TV *Business EBITDA[1] margin*	*13%*	*18%*	***14%***	

Revenue for the Now TV business for the six months ended June 30, 2018 increased by 4% to HK$1,392 million compared to HK$1,334 million for the prior period. The return to growth for the Now TV business reflected the success of the exclusive broadcast of the 2018 FIFA World Cup™ to help acquire new customers and up-sell existing customers as well as the launch of the Now E service, a brand new one-stop entertainment platform to serve digitally savvy viewers. As a result, Now TV enlarged its installed base to 1,343,000 as of June 2018 and achieved an exit average revenue per user ("ARPU") of HK$191. The remaining impact from the World Cup in the second half of 2018 and the exclusive broadcast of the English Premier League for the 2018/19 season on both the Now TV and Now E platforms are expected to continue to contribute to revenue.

As a result of the revenue growth, EBITDA for the six months ended June 30, 2018 expanded by 19% to HK$198 million, as compared to HK$167 million a year ago. The EBITDA margin improved from 13% in the first half of 2017 to 14% in the first half of 2018 even after absorbing the 2018 FIFA World Cup™ related costs, reflecting the effort to rationalize content costs that began in the second half of 2017 and improved operating efficiencies.

Free TV Business

For the six months ended HK$ million	Jun 30, 2017 *(Restated)*	Dec 31, 2017 *(Restated)*	**Jun 30, 2018**	Better/ (Worse) y-o-y
Free TV Business Revenue	94	91	**99**	5%
Free TV Business EBITDA[1]	(104)	(116)	**(131)**	(26)%

Revenue for ViuTV grew by 5% to HK$99 million for the six months ended June 30, 2018 from HK$94 million a year ago. This growth reflected a 40% increase in advertising revenue during the period which was driven by the broadcast of the 2018 FIFA World Cup™ and its related programs. The broadcast helped to broaden our viewership base, evidenced by the television ratings recorded during the tournament including an average rating of 24.4 for the final match. The strong growth in advertising revenue was moderated by the absence of drama distribution revenue which was apparent in the first half of 2017. However, with the continued investment in drama production we expect this revenue to return in future periods.

Due to the 2018 FIFA World Cup™ related costs and continued investments in content acquisition and production, the EBITDA loss widened to HK$131 million for the six months ended June 30, 2018, compared to an EBITDA loss of HK$104 million a year ago. These investments are expected to yield meaningful revenue in the coming periods.

Following the success of the 2018 FIFA World Cup™ broadcast in boosting the ViuTV viewership and brand awareness, ViuTV will continue to roll out more attractive variety shows, dramas and other programs to sustain the expanded viewership base and enhanced brand awareness.

OTT Business

For the six months ended HK$ million	Jun 30, 2017 *(Restated)*	Dec 31, 2017 *(Restated)*	**Jun 30, 2018**	Better/ (Worse) y-o-y
OTT Business Revenue	337	381	**394**	17%
OTT Business EBITDA[1]	(115)	(118)	**(144)**	(25)%

Revenue from the OTT business grew by 17% to HK$394 million from HK$337 million a year ago. In particular, revenue from the video OTT segment increased by 30% spurred by the continuing build-out and take-up of the premium Viu service in recently entered markets such as Thailand and large scale markets such as India and Indonesia. Our video OTT services are now available in 27 markets across Asia, the Middle East and Africa and the premium Viu service is available in 16 markets.

Subscription revenue generated by the OTT business grew by 8% during the period from HK$263 million for the six months ended June 30, 2017 to HK$285 million for the six months ended June 30, 2018. Notably, advertising revenue expanded by 47% from HK$74 million to HK$109 million year-on-year demonstrating the broad appeal of the sizeable and highly engaged Viu user base to advertisers across the region. The Viu service recorded 20.3 million monthly active users as of June 30, 2018, representing a solid growth rate of 62% year-on-year. These users consumed 14.8 billion video minutes in 1.2 billion views during the first six months of 2018.

To further drive growth in the OTT business, further investments have been made in content, personnel and marketing in the first half of 2018. Accordingly, the OTT business recorded an EBITDA loss of HK$144 million for the six months ended June 30, 2018 compared to the EBITDA loss of HK$115 million a year ago.

The OTT business plans to deepen its engagement with users by broadening its content offering, including its Viu Original productions, and drive user awareness through partnerships with popular social media and e-commerce platforms as well as telecommunications and device partners.

Solutions Business

For the six months ended HK$ million	Jun 30, 2017 *(Restated)*	Dec 31, 2017 *(Restated)*	**Jun 30, 2018**	Better/ (Worse) y-o-y
Solutions Business Revenue	1,685	2,317	**1,709**	1%
Solutions Business EBITDA[1]	378	701	**271**	(28)%
Solutions Business EBITDA[1] margin	*22%*	*30%*	***16%***	

The Solutions business recorded modest growth in revenue of 1% to HK$1,709 million for the six months ended June 30, 2018. Although there was a healthy 20% increase in revenue of a recurring nature, this was offset by fluctuations in project-related revenue especially in the China market.

Leveraging on its industry expertise, the Solutions business secured revenue from customers in the telecom sector which represented 36% of total revenue. As more enterprises increased their spending on digital transformation, revenue from application development and maintenance services increased to 27% of total revenue.

In line with its strategy to expand into new geographic markets including Singapore and the Philippines, contribution from international markets has been expanding. Secured orders from international markets grew by 26% for the six months ended June 30, 2018 against the comparative period in 2017.

EBITDA for the six months ended June 30, 2018 decreased by 28% to HK$271 million and the margin was 16%. The decline in EBITDA was in line with project-related revenue and also reflected upfront investments to secure and execute projects in the new markets. Steps have been put in place to restructure the size of the delivery resources to align with current business levels as well as to accelerate the sales conversion process.

The Solutions business secured orders with a value of HK$7,336 million as at June 30, 2018, an increase of 11% from a year ago. Significant wins included a contract to design business critical IT systems for the Correctional Services Department and a contract with a telecom company in Singapore to design, plan and build an end-to-end IT system integrated with a modern, software defined communications network.

To facilitate future growth, the Solutions business is adding 44MVA of data center capacity in Hong Kong and is evaluating opportunities to add data center capacity in other locations to capture demand from customers. The Solutions business has successfully secured contracts in new geographic markets and will continue to leverage its expertise in the latest technologies such as analytics and artificial intelligence to further secure projects in and beyond Hong Kong.

PCPD

For the six months ended June 30, 2018, PCPD recorded higher total revenue of HK$165 million compared with total revenue of HK$107 million and narrowed EBITDA cost to HK$80 million from EBITDA cost of HK$97 million a year earlier as Pacific Century Place, Jakarta ("PCP, Jakarta") started generating rental revenue.

PCP, Jakarta commenced its full operation at the beginning of the year. To date, 78% of the office space at PCP, Jakarta has been committed or reserved.

Construction of the Park Hyatt Niseko Hanazono and Branded Residences is progressing as scheduled. PCPD has sold or reserved 90 units and is preparing to launch the remaining units of Park Hyatt Niseko Hanazono Residences in the coming year.

In Thailand, PCPD has entered into the design stage of phase 1 of the project in Phang Nga. The project once completed will comprise hotels, condominiums and villas.

In March 2018, PCPD completed the acquisition of the site at 3-6 Glenealy, Central, Hong Kong. The site is intended to be redeveloped into a luxury residential property.

PCPD will continue to seek potential projects around the world, including Hong Kong, Southeast Asia and London.

For more information about the performance of PCPD, please refer to its 2018 interim results announcement released on August 3, 2018.

Other Businesses

Other Businesses primarily comprises corporate support functions. The EBITDA cost of the Group's Other Businesses for the six months ended June 30, 2018 improved to HK$193 million (June 30, 2017: HK$251 million) due to further operating efficiencies.

Eliminations

Eliminations for the six months ended June 30, 2018 were HK$1,807 million (June 30, 2017: HK$1,558 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.

Costs

Cost of Sales

For the six months ended HK$ million	Jun 30, 2017 *(Restated)*	Dec 31, 2017 *(Restated)*	**Jun 30, 2018**	Better/ (Worse) y-o-y
HKT	7,124	8,848	**8,858**	(24)%
The Group (excluding PCPD)	8,377	9,930	**10,125**	(21)%
Consolidated	8,402	9,942	**10,152**	(21)%

HKT's cost of sales for the six months ended June 30, 2018 increased by 24% to HK$8,858 million primarily reflecting the costs associated with the increase in Mobile Product Sales. The gross margin was 48% in the first half of 2018, as compared to 53% a year ago due to the dilutionary impact of Mobile Product Sales. Excluding Mobile Product Sales, the gross margin for HKT was steady at 60% for the first half of 2018.

Cost of sales for the core businesses increased by 21% primarily driven by increases at HKT. Gross margin for the core businesses was 46% in the first half of 2018, as compared to 51% a year ago.

The Group's consolidated total cost of sales for the six months ended June 30, 2018 increased by 21% to HK$10,152 million.

General and Administrative Expenses

For the six months ended June 30, 2018, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, ("operating costs") increased by 1% year-on-year to HK$3,349 million. There were sustained improvements in operating efficiencies at HKT, particularly in the Mobile business. However, further investments were made to maintain the growth momentum of the OTT service in the Media business as well as upfront investments to expand the Solutions business into new geographic markets. Overall, operating costs to revenue ratio improved to 18% from 19% a year ago.

Both depreciation and amortization expenses remained steady and totaled HK$3,464 million for the six months ended June 30, 2018 (June 30, 2017: HK$3,439 million). Content related amortization for the period was HK$304 million, as compared to HK$275 million a year ago.

As a result, general and administrative expenses increased slightly by 1% year-on-year to HK$6,812 million for the six months ended June 30, 2018.

EBITDA[1]

Core EBITDA for the six months ended June 30, 2018 was steady at HK$5,553 million while the margin decreased to 30% due to the dilutionary impact of Mobile Product Sales. Excluding Mobile Product Sales, the core EBITDA margin was steady at 36%. Consolidated EBITDA was steady at HK$5,473 million for the period with the margin at 29%.

Other Gains/(Losses), Net

Net other gains of HK$334 million, which primarily represented gains on strategic investments in the Media business, were recorded for the six months ended June 30, 2018, as compared to HK$25 million a year ago.

Interest Income and Finance Costs

Interest income for the six months ended June 30, 2018 increased to HK$71 million as a result of the increase in the average cash balance and the general level of interest rates compared to a year ago. Finance costs increased by 5% year-on-year to HK$893 million as a result of generally higher HIBOR and an increase in borrowings at PCPD to support ongoing and future property developments. As a result, net finance costs increased by 4% year-on-year to HK$822 million for the six months ended June 30, 2018. The average cost of debt was 3.2% during the period, as compared to 3.0% a year ago.

Income Tax

Income tax expenses for the six months ended June 30, 2018 was HK$437 million, as compared to HK$211 million a year ago. The increase was primarily attributable to the lower tax expense at HKT a year earlier due to the recognition of a deferred income tax asset resulting from a loss-making company turning profitable.

Non-controlling Interests

Non-controlling interests were HK$874 million for the six months ended June 30, 2018 (June 30, 2017: HK$976 million), which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD. The reduction in non-controlling interests was largely due to the decrease in the net profit after tax of HKT during the period.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company from continuing operations for the six months ended June 30, 2018 was HK$185 million (June 30, 2017: HK$80 million).

LIQUIDITY AND CAPITAL RESOURCES

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

The Group's gross debt[2] was HK$48,761 million as at June 30, 2018 (December 31, 2017: HK$47,580 million). Cash and short-term deposits totaled HK$9,062 million as at June 30, 2018 (December 31, 2017: HK$13,267 million). At PCCW (excluding HKT and PCPD), there was a net cash position of HK$615 million as at June 30, 2018.

As at June 30, 2018, the Group had a total of HK$40,465 million in committed bank loan facilities available for liquidity management and investment, of which HK$16,924 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$27,767 million, of which HK$5,734 million remained undrawn.

The Group's gross debt[2] to total assets was 52% as at June 30, 2018 (December 31, 2017: 51%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at June 30, 2018, 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 six months ended June 30, 2018 was HK$1,713 million (June 30, 2017: HK$1,518 million), of which HKT accounted for approximately 79% (June 30, 2017: 88%). Capital expenditure at HKT was stable as capital expenditure for the Mobile business was reduced reflecting the efficiencies achieved following the CSL network integration, while capital expenditures for the TSS business grew to meet the continued demand for HKT's fiber broadband connectivity and to get ready for 5G deployment, Internet of Things ("IoT") related services, customized solutions for enterprises and smart city development in the public sector. There was an increase in capital expenditure for the Media business largely for office relocation and the upgrading of its production studio facilities which is expected to be completed by the end of 2018. Capital expenditure for the Solutions business also increased to support the expansion of data center capacity. There was also an increase in capital expenditure at PCPD to support the construction of the Park Hyatt Hotel and Branded Residences project.

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 June 30, 2018, 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 June 30, 2018, certain assets of the Group with an aggregate carrying value of HK$3,318 million (December 31, 2017: HK$1,128 million) were pledged to secure certain bank loan facilities of the Group.

CONTINGENT LIABILITIES

HK$ million	As at Dec 31, 2017 (Audited)	**As at Jun 30, 2018 (Unaudited)**
Performance guarantees	572	**593**
Others	130	**130**
	702	**723**

The Group operates across several jurisdictions and is subject to certain queries from relevant tax authorities in respect of tax treatment of certain matters currently under way. As at June 30, 2018, the Group is unable to ascertain the likelihood of the outcome of these tax queries, other than those provided for. Based on the currently available information and assessment, the Directors are of the opinion that these cases will not have a significant financial impact to the Group.

The Group is also 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 23,700 employees as at June 30, 2018 (June 30, 2017: 23,800) located in over 48 countries and cities. About 64% 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.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 8.91 HK cents (June 30, 2017: 8.57 HK cents) per ordinary share for the six months ended June 30, 2018 to shareholders whose names appear on the register of members of the Company on Friday, August 31, 2018, payable on or around Wednesday, October 10, 2018.

CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2018

In HK$ million (except for earnings per share)	Note(s)	2017 (Restated#)	2018 (Unaudited)
Continuing operations			
Revenue	3	17,210	**18,974**
Cost of sales		(8,402)	**(10,152)**
General and administrative expenses		(6,742)	**(6,812)**
Other gains, net	4	25	**334**
Interest income		58	**71**
Finance costs		(847)	**(893)**
Share of results of associates		(21)	**(11)**
Share of results of joint ventures		(14)	**(15)**
Profit before income tax	3, 5	1,267	**1,496**
Income tax	6	(211)	**(437)**
Profit for the period from continuing operations		1,056	**1,059**
Discontinued operations			
Profit for the period from discontinued operations	8	1,074	**–**
Profit for the period		2,130	**1,059**
Profit attributable to:			
Equity holders of the Company		1,154	**185**
Non-controlling interests		976	**874**
		2,130	**1,059**
Profit attributable to equity holders of the Company arising from:			
Continuing operations		80	**185**
Discontinued operations		1,074	**–**
		1,154	**185**
Earnings per share	9		
Basic earnings per share arising from:			
Continuing operations		1.04 cents	**2.40 cents**
Discontinued operations		13.94 cents	**–**
		14.98 cents	**2.40 cents**
Diluted earnings per share arising from:			
Continuing operations		1.04 cents	**2.40 cents**
Discontinued operations		13.93 cents	**–**
		14.97 cents	**2.40 cents**

See note 2 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 31 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2018

In HK$ million	2017 (Restated#)	**2018 (Unaudited)**
Profit for the period	2,130	**1,059**
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to consolidated income statement:		
Changes in the fair value of equity investments at fair value through other comprehensive income	–	**(57)**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
– exchange differences on translating foreign operations	238	**(146)**
– reclassification of currency translation reserve on disposal of subsidiaries	172	**–**
Available-for-sale financial assets:		
– changes in fair value	(10)	**–**
Cash flow hedges:		
– effective portion of changes in fair value	(624)	**75**
– transfer from equity to consolidated income statement	(217)	**(41)**
Costs of hedging	–	**5**
Other comprehensive loss for the period	(441)	**(164)**
Total comprehensive income for the period	1,689	**895**
Attributable to:		
Equity holders of the Company	1,005	**11**
Non-controlling interests	684	**884**
Total comprehensive income for the period	1,689	**895**
Total comprehensive (loss)/income attributable to equity holders of the Company arising from:		
Continuing operations	(269)	**11**
Discontinued operations	1,274	**–**
	1,005	**11**

See note 2 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 31 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at June 30, 2018

In HK$ million	Note*	The Group As at December 31, 2017 (Restated#)	The Group As at **June 30, 2018 (Unaudited)**	(Additional information) The Company As at December 31, 2017 (Audited)	(Additional information) The Company As at **June 30, 2018 (Unaudited)**
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		21,681	**22,550**	–	**–**
Right-of-use assets		3,237	**4,110**	–	**–**
Investment properties		3,744	**3,625**	–	**–**
Interests in leasehold land		404	**396**	–	**–**
Properties held for/under development	10	1,188	**3,404**	–	**–**
Goodwill		18,128	**18,128**	–	**–**
Intangible assets		9,603	**9,842**	–	**–**
Fulfillment costs		1,378	**1,335**	–	**–**
Customer acquisition costs		797	**778**	–	**–**
Contract assets		353	**366**	–	**–**
Interests in subsidiaries		–	**–**	17,792	**17,792**
Interests in associates		719	**710**	–	**–**
Interests in joint ventures		592	**561**	–	**–**
Available-for-sale financial assets		2,021	**–**	–	**–**
Financial assets at fair value through other comprehensive income		–	**1,126**	–	**–**
Financial assets at fair value through profit or loss		–	**756**	–	**–**
Derivative financial instruments		225	**283**	2	**6**
Deferred income tax assets		1,215	**1,225**	–	**–**
Other non-current assets		1,013	**1,094**	–	**–**
		66,298	**70,289**	17,794	**17,798**
Current assets					
Amounts due from subsidiaries		–	**–**	12,746	**14,201**
Sales proceeds held in stakeholders' accounts		508	**507**	–	**–**
Inventories		911	**1,193**	–	**–**
Prepayments, deposits and other current assets		4,452	**3,887**	16	**14**
Contract assets		3,090	**3,049**	–	**–**
Trade receivables, net	11	3,664	**4,602**	–	**–**
Amounts due from related companies		86	**124**	–	**–**
Derivative financial instruments		1	**4**	1	**4**
Other financial assets		79	**–**	–	**–**
Financial assets at fair value through profit or loss		–	**350**	–	**–**
Tax recoverable		19	**18**	–	**–**
Restricted cash		149	**172**	–	**–**
Short-term deposits		1,629	**636**	160	**–**
Cash and cash equivalents		11,638	**8,426**	4,364	**2,887**
		26,226	**22,968**	17,287	**17,106**

In HK$ million	Note*	The Group As at December 31, 2017 (Restated#)	The Group As at **June 30, 2018 (Unaudited)**	(Additional information) The Company As at December 31, 2017 (Audited)	(Additional information) The Company As at **June 30, 2018 (Unaudited)**
Current liabilities					
Short-term borrowings	12	(622)	**(8,038)**	–	**–**
Trade payables	13	(2,088)	**(1,875)**	–	**–**
Accruals and other payables		(7,515)	**(7,239)**	(10)	**(9)**
Amount payable to the Government under the Cyberport Project Agreement		(321)	**(321)**	–	**–**
Derivative financial instruments		(15)	**–**	–	**–**
Carrier licence fee liabilities		(173)	**(218)**	–	**–**
Amounts due to related companies		(1)	**(2)**	–	**–**
Advances from customers		(253)	**(272)**	–	**–**
Contract liabilities		(1,538)	**(2,173)**	–	**–**
Lease liabilities		(1,446)	**(1,493)**	–	**–**
Current income tax liabilities		(1,155)	**(1,270)**	–	**–**
		(15,127)	**(22,901)**	(10)	**(9)**
Non-current liabilities					
Long-term borrowings		(46,613)	**(40,494)**	–	**–**
Amounts due to subsidiaries		–	**–**	(3,100)	**(3,153)**
Derivative financial instruments		(282)	**(223)**	(104)	**(111)**
Deferred income tax liabilities		(3,208)	**(3,347)**	–	**–**
Defined benefit retirement schemes liability		(105)	**(106)**	–	**–**
Carrier licence fee liabilities		(455)	**(409)**	–	**–**
Contract liabilities		(1,026)	**(1,092)**	–	**–**
Lease liabilities		(2,005)	**(2,845)**	–	**–**
Other long-term liabilities		(1,811)	**(1,893)**	–	**–**
		(55,505)	**(50,409)**	(3,204)	**(3,264)**
Net assets		21,892	**19,947**	31,867	**31,631**
CAPITAL AND RESERVES					
Share capital	14	12,954	**12,954**	12,954	**12,954**
Reserves		6,236	**4,613**	18,913	**18,677**
Equity attributable to equity holders of the Company		19,190	**17,567**	31,867	**31,631**
Non-controlling interests		2,702	**2,380**	–	**–**
Total equity		21,892	**19,947**	31,867	**31,631**

* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at June 30, 2018 and December 31, 2017 is presented only as additional information to this unaudited condensed consolidated interim financial information.

\# See note 2 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 31 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2018

In HK$ million

2017 (Restated#)

	Attributable to equity holders of the Company										Non-controlling interests	Total equity
	Share capital	Special capital reserve	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		
At January 1, 2017 as originally presented	12,954	918	(18)	81	(1,085)	422	278	(113)	(1,411)	12,026	2,750	14,776
Changes in accounting policies *(note 2)*	–	–	–	–	–	–	–	–	(639)	(639)	(302)	(941)
At January 1, 2017 (restated#)	12,954	918	(18)	81	(1,085)	422	278	(113)	(2,050)	11,387	2,448	13,835
Total comprehensive income/(loss) for the period												
Profit for the period (restated#)	–	–	–	–	–	–	–	–	1,154	1,154	976	2,130
Other comprehensive income/(loss)												
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:												
Translation exchange differences:												
– exchange differences on translating foreign operations	–	–	–	–	188	–	–	–	–	188	50	238
– reclassification of currency translation reserve on disposal of subsidiaries	–	–	–	–	172	–	–	–	–	172	–	172
Available-for-sale financial assets:												
– changes in fair value	–	–	–	–	–	–	(10)	–	–	(10)	–	(10)
Cash flow hedges:												
– effective portion of changes in fair value	–	–	–	–	–	(381)	–	–	–	(381)	(243)	(624)
– transfer from equity to consolidated income statement	–	–	–	–	–	(118)	–	–	–	(118)	(99)	(217)
Other comprehensive income/(loss) for the period	–	–	–	–	360	(499)	(10)	–	–	(149)	(292)	(441)
Total comprehensive income/(loss) for the period (restated#)	–	–	–	–	360	(499)	(10)	–	1,154	1,005	684	1,689
Transactions with equity holders												
Purchase of shares of PCCW Limited ("PCCW Shares") under share award scheme	–	–	(16)	–	–	–	–	–	–	(16)	–	(16)
Purchase of share stapled units of HKT Trust and HKT Limited ("Share Stapled Units") under share award schemes	–	–	–	–	–	–	–	–	(10)	(10)	(4)	(14)
Employee share-based compensation	–	–	–	36	–	–	–	–	–	36	6	42
Vesting of PCCW Shares and Share Stapled Units under share award schemes	–	–	19	(57)	–	–	–	–	35	(3)	3	–
Distribution for Share Stapled Units granted under share award schemes	–	–	–	(2)	–	–	–	–	(1)	(3)	1	(2)
Dividend paid in respect of previous year *(note 7(b))*	–	(918)	–	(4)	–	–	–	–	(635)	(1,557)	–	(1,557)
Distribution/Dividend declared and paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	(1,284)	(1,284)
Total contributions by and distributions to equity holders	–	(918)	3	(27)	–	–	–	–	(611)	(1,553)	(1,278)	(2,831)
Changes in ownership interests in subsidiaries that do not result in loss of control (restated#)	–	–	–	–	–	–	–	–	7,814	7,814	547	8,361
Total transactions with equity holders (restated#)	–	(918)	3	(27)	–	–	–	–	7,203	6,261	(731)	5,530
At June 30, 2017 (restated#)	12,954	–	(15)	54	(725)	(77)	268	(113)	6,307	18,653	2,401	21,054

See note 2 for details regarding the restatement as a result of changes in accounting policies.

In HK$ million	2018 (Unaudited)												
	Attributable to equity holders of the Company											Non-controlling interests	Total equity
	Share capital	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Costs of hedging reserve	Available-for-sale financial assets reserve	Financial assets at fair value through other comprehensive income reserve	Other reserves	Retained profits	Total		
At December 31, 2017 as originally presented	12,954	(9)	75	(679)	19	–	375	–	(113)	7,319	19,941	3,264	23,205
Changes in accounting policies *(note 2)*	–	–	–	1	–	–	–	–	–	(752)	(751)	(562)	(1,313)
At December 31, 2017 (restated#)	12,954	(9)	75	(678)	19	–	375	–	(113)	6,567	19,190	2,702	21,892
Changes in accounting policies *(note 2)*	–	–	–	–	182	(138)	(375)	163	–	168	–	–	–
At January 1, 2018 (restated#)	12,954	(9)	75	(678)	201	(138)	–	163	(113)	6,735	19,190	2,702	21,892
Total comprehensive income/(loss) for the period													
Profit for the period	–	–	–	–	–	–	–	–	–	185	185	874	1,059
Other comprehensive income/(loss)													
Items that will not be reclassified subsequently to consolidated income statement:													
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	–	–	–	–	–	(57)	–	–	(57)	–	(57)
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:													
Translation exchange differences:													
– exchange differences on translating foreign operations	–	–	–	(122)	–	–	–	–	–	–	(122)	(24)	(146)
Cash flow hedges:													
– effective portion of changes in fair value	–	–	–	–	24	–	–	–	–	–	24	51	75
– transfer from equity to consolidated income statement	–	–	–	–	(23)	–	–	–	–	–	(23)	(18)	(41)
Costs of hedging	–	–	–	–	–	4	–	–	–	–	4	1	5
Other comprehensive income/(loss) for the period	–	–	–	(122)	1	4	–	(57)	–	–	(174)	10	(164)
Total comprehensive income/(loss) for the period	–	–	–	(122)	1	4	–	(57)	–	185	11	884	895
Transactions with equity holders													
Purchase of PCCW Shares under share award scheme	–	(17)	–	–	–	–	–	–	–	–	(17)	–	(17)
Purchase of Share Stapled Units under share award schemes	–	–	–	–	–	–	–	–	–	(15)	(15)	(5)	(20)
Employee share-based compensation	–	–	41	–	–	–	–	–	–	–	41	5	46
Vesting of PCCW Shares and Share Stapled Units under share award schemes	–	24	(62)	–	–	–	–	–	–	32	(6)	6	–
Distribution for Share Stapled Units granted under share award schemes	–	–	(2)	–	–	–	–	–	–	–	(2)	–	(2)
Dividend paid in respect of previous year *(note 7(b))*	–	–	(2)	–	–	–	–	–	–	(1,633)	(1,635)	–	(1,635)
Distribution/Dividend declared and paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(1,347)	(1,347)
Total contributions by and distributions to equity holders	–	7	(25)	–	–	–	–	–	–	(1,616)	(1,634)	(1,341)	(2,975)
Acquisition of a subsidiary *(note 10)*	–	–	–	–	–	–	–	–	–	–	–	133	133
Contribution from a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	2	2
Total changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	–	–	–	–	–	–	–	–	135	135
Total transactions with equity holders	–	7	(25)	–	–	–	–	–	–	(1,616)	(1,634)	(1,206)	(2,840)
At June 30, 2018	12,954	(2)	50	(800)	202	(134)	–	106	(113)	5,304	17,567	2,380	19,947

See note 2 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 31 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2018

In HK$ million	2017 (Restated[#])	**2018 (Unaudited)**
Net cash generated from operating activities	4,534	**2,231**
Investing activities		
Investment in a joint venture	–	**(30)**
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	2,393	**–**
(Increase)/Decrease in short-term deposits with maturity more than three months	(2,653)	**993**
Other investing activities	(3,426)	**(2,961)**
Net cash used in investing activities	(3,686)	**(1,998)**
Financing activities		
New borrowings raised, net	9,097	**4,020**
Proceeds from placing of Share Stapled Units, net	8,361	**–**
Other financing activities (including repayment of borrowings)	(13,002)	**(7,492)**
Net cash generated from/(used in) financing activities	4,456	**(3,472)**
Net increase/(decrease) in cash and cash equivalents	5,304	**(3,239)**
Exchange differences	37	**27**
Add: cash and cash equivalents of disposal group classified as held for sale at January 1,	6	**–**
Cash and cash equivalents at January 1,	4,751	**11,638**
Cash and cash equivalents at June 30,	10,098	**8,426**
Analysis of the balance of cash and cash equivalents:		
Total cash and bank balances	13,348	**9,234**
Less: Short-term deposits	(3,106)	**(636)**
Less: Restricted cash	(144)	**(172)**
	10,098	**8,426**

See note 2 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 31 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

1 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information of PCCW Limited (the "Company") and its subsidiaries (collectively the "Group") has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard ("HKAS") 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This unaudited condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017.

This unaudited condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This unaudited condensed consolidated interim financial information was approved for issue on August 7, 2018.

The unaudited condensed consolidated interim financial information has been reviewed by the Company's Audit Committee and, in accordance with Hong Kong Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the HKICPA, by the Company's independent auditor.

The financial information relating to the year ended December 31, 2017 that is included in this unaudited condensed consolidated interim financial information as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- The Company has delivered the financial statements for the year ended December 31, 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

- The Company's auditor has reported on those financial statements of the Group. The auditor's report was unqualified; did not include a reference to any matter to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

1 BASIS OF PREPARATION *(CONTINUED)*

The preparation of the unaudited condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

In preparing this unaudited condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2017, except for changes in estimates that are required by the changes in accounting policies as described in note 2.

The accounting policies, basis of presentation and methods of computation used in preparing this unaudited condensed consolidated interim financial information are consistent with those followed in preparing the Group's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of the following new or amended Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations ("Ints") (collectively "new HKFRSs") and the classification of discontinued operations.

In 2017, the Group disposed of its entire indirect equity interest in UK Broadband Limited, which engaged in the provision of wireless broadband services in the United Kingdom. In 2018, the Group has ceased the remaining operations of its wireless broadband and related business component in the United Kingdom. The unaudited condensed consolidated interim financial information and the comparative figures have been prepared to reflect the results of the discontinued operations separately.

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2018 and the impacts of the adoption of the new HKFRSs are disclosed in note 2.

- HKFRS 9 (2014), *Financial Instruments*.
- HKFRS 15, *Revenue from Contracts with Customers*.

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2018, but have no material effect on the Group's reported results and financial position for the current and prior accounting periods:

- HKAS 40 (Amendment), *Investment Property*.
- HKFRS 2 (Amendment), *Share-based Payment*.
- HKFRS 4 (Amendment), *Insurance Contracts*.
- HK(IFRIC) – Int 22, *Foreign Currency Transactions and Advanced Consideration*.
- Annual Improvements to HKFRSs 2014-2016 Cycle published in March 2017 by HKICPA.

The Group has early adopted HKFRS 16 *Leases* that is mandatory for the first time for the financial year beginning January 1, 2019 and the impact of the adoption is disclosed in note 2. The Group has not early adopted any other new HKFRSs that are not yet effective for the current accounting period.

2 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs

This note explains the impact of the adoption of HKFRS 9 (2014) *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers*, and the early adoption of HKFRS 16 *Leases* on the Group's financial statements.

a. Impacts on the financial statements

As a result of the changes in the Group's accounting policies and the reclassification of discontinued operations (note 8), prior period financial statements had to be restated as follows:

In HK$ million (except for earnings per share)

Consolidated income statement for the six months ended June 30, 2017 (extract)	As originally presented	Reclassification of discontinued operations (note 8)	HKFRS 15 (note 2(a)(i))	HKFRS 16 (note 2(a)(ii))	Restated
Revenue	17,683	(30)	(443)	–	17,210
Cost of sales	(7,961)	15	(713)	257	(8,402)
General and administrative expenses	(7,498)	106	864	(214)	(6,742)
Other gains, net	1,190	(1,165)	–	–	25
Finance costs	(790)	–	–	(57)	(847)
Profit before income tax from continuing operations*	2,647	(1,074)	(292)	(14)	1,267
Income tax	(263)	–	48	4	(211)
Profit for the period from continuing operations	2,384	(1,074)	(244)	(10)	1,056
Profit for the period from discontinued operations	–	1,074	–	–	1,074
Profit for the period	2,384	–	(244)	(10)	2,130
Earnings per share					
Basic earnings per share arising from:					
Continuing operations (cents)	16.79	(13.94)	(1.70)	(0.11)	1.04
Discontinued operations (cents)	–	13.94	–	–	13.94
	16.79	–	(1.70)	(0.11)	14.98
Diluted earnings per share arising from:					
Continuing operations (cents)	16.77	(13.93)	(1.70)	(0.10)	1.04
Discontinued operations (cents)	–	13.93	–	–	13.93
	16.77	–	(1.70)	(0.10)	14.97

* The tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

2 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs *(CONTINUED)*

a. Impacts on the financial statements *(continued)*

In HK$ million

Consolidated statement of comprehensive income for the six months ended June 30, 2017 (extract)	As originally presented	HKFRS 15 (note 2(a)(i))	HKFRS 16 (note 2(a)(ii))	Restated
Profit for the period	2,384	(244)	(10)	2,130
Total comprehensive income for the period*	1,943	(244)	(10)	1,689
Attributable to:				
Equity holders of the Company	1,144	(131)	(8)	1,005
Non-controlling interests	799	(113)	(2)	684
Total comprehensive income for the period	1,943	(244)	(10)	1,689

In HK$ million

Consolidated statement of financial position (extract)	As at December 31, 2017 As originally presented	HKFRS 15 (note 2(a)(i))	HKFRS 16 (note 2(a)(ii))	As at December 31, 2017 Restated	HKFRS 9 (2014) (note 2(a)(iii))	As at January 1, 2018 Restated
ASSETS AND LIABILITIES						
Non-current assets						
Right-of-use assets	–	–	3,237	3,237	–	3,237
Intangible assets	12,726	(3,123)	–	9,603	–	9,603
Fulfillment costs	–	1,378	–	1,378	–	1,378
Customer acquisition costs	–	797	–	797	–	797
Contract assets	–	353	–	353	–	353
Available-for-sale ("AFS") financial assets	2,021	–	–	2,021	(2,021)	–
Financial assets at FVOCI[i]	–	–	–	–	1,183	1,183
Financial assets at FVPL[ii]	–	–	–	–	838	838
Deferred income tax assets	1,213	–	2	1,215	–	1,215
Other non-current assets	1,019	–	(6)	1,013	–	1,013
Current assets						
Prepayments, deposits and other current assets	9,556	(5,000)	(104)	4,452	–	4,452
Contract assets	–	3,090	–	3,090	–	3,090
Other financial assets	79	–	–	79	(79)	–
Financial assets at FVPL	–	–	–	–	79	79

i Fair value through other comprehensive income ("FVOCI")

ii Fair value through profit or loss ("FVPL")

* The tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

2 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs *(CONTINUED)*

a. Impacts on the financial statements *(continued)*

In HK$ million

Consolidated statement of financial position (extract) *(continued)*	As at December 31, 2017 As originally presented	HKFRS 15 (note 2(a)(i))	HKFRS 16 (note 2(a)(ii))	As at December 31, 2017 Restated	HKFRS 9 (2014) (note 2(a)(iii))	As at January 1, 2018 Restated
Current liabilities						
Accruals and other payables	(7,569)	–	54	(7,515)	–	(7,515)
Advances from customers	(2,588)	2,335	–	(253)	–	(253)
Contract liabilities	–	(1,538)	–	(1,538)	–	(1,538)
Lease liabilities	–	–	(1,446)	(1,446)	–	(1,446)
Current income tax liabilities	(1,438)	271	12	(1,155)	–	(1,155)
Non-current liabilities						
Deferred income tax liabilities	(3,233)	–	25	(3,208)	–	(3,208)
Deferred income	(1,381)	1,381	–	–	–	–
Contract liabilities	–	(1,026)	–	(1,026)	–	(1,026)
Lease liabilities	–	–	(2,005)	(2,005)	–	(2,005)
Net assets*	23,205	(1,082)	(231)	21,892	–	21,892
CAPITAL AND RESERVES						
Reserves	6,987	(555)	(196)	6,236	–	6,236
Equity attributable to equity holders of the Company*	19,941	(555)	(196)	19,190	–	19,190
Non-controlling interests	3,264	(527)	(35)	2,702	–	2,702
Total equity*	23,205	(1,082)	(231)	21,892	–	21,892

* The tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

2 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs *(CONTINUED)*

a. Impact on the financial statements *(continued)*

In HK$ million Condensed consolidated statement of cash flows for the six months ended June 30, 2017 (extract)	As originally presented	HKFRS 15 (note 2(a)(i))	HKFRS 16 (note 2(a)(ii))	Restated
Net cash generated from operating activities	5,079	(1,498)	953	4,534
Net cash used in investing activities	(5,184)	1,498	–	(3,686)
Net cash generated from financing activities	5,409	–	(953)	4,456
Net increase in cash and cash equivalents	5,304	–	–	5,304

(i) HKFRS 15 *Revenue from Contracts with Customers*

The Group has adopted HKFRS 15 *Revenue from Contracts with Customers* from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. In accordance with the transition provisions in HKFRS 15, the Group has elected to apply the new standard retrospectively and has restated comparatives for the prior periods presented.

The adoption of HKFRS 15 mainly affects the accounting treatment of the Group's sale contracts with customers in which the Group has multiple performance obligations to customers, such as provision of telecommunications, media and other services, sale of handsets, equipment and gifts offered in the contracts.

Before adoption of HKFRS 15, the Group capitalized the subsidized costs of handsets and gifts as customer acquisition costs under intangible assets, with no revenue being allocated to them. These customer acquisition costs were amortized over the respective minimum enforceable contractual periods on a straight-line basis. Residual value method was used to determine the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

After the adoption of HKFRS 15, the total transaction price receivable from customers in multiple-element sale contracts is allocated among all identified performance obligations of the Group in proportion to their respective standalone selling price.

Accordingly, although the total revenue being recognized for a multiple-element sale contract over the contract period is unchanged, the amount and timing of revenue recognition for individual performance obligations would be different after the adoption of HKFRS 15. The revenue being allocated to handsets, equipment and gifts is recognized upon the delivery to customers, which is generally upfront upon entering into the sale contracts. The revenue allocated to telecommunications, media and other services is recognized when services are rendered, which is generally over the contract period.

Moreover, subsidized costs of handsets and gifts are no longer capitalized and amortized, but are required to be recognized as cost of sales immediately when the corresponding revenue is recognized.

Nevertheless, other direct costs incurred to acquire contractual relationships with customers and other costs incurred in fulfilling the contracts with customers are required to be capitalized as "customer acquisition costs" and "fulfillment costs" under HKFRS 15 in the consolidated statement of financial position respectively.

2 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs *(CONTINUED)*

a. Impact on the financial statements *(continued)*

(i) HKFRS 15 *Revenue from Contracts with Customers* *(continued)*

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 2(a) above are restated, resulting in a decrease in retained profits attributable to equity holders of the Company as at December 31, 2016, profit attributable to equity holders of the Company for the six months ended June 30, 2017 and the year ended December 31, 2017 of HK$452 million, HK$131 million and HK$190 million respectively. The Group's EBITDA as defined and disclosed in the segment information is also restated and decreased by HK$1,156 million and HK$2,220 million for the six months ended June 30, 2017 and the year ended December 31, 2017 respectively.

For the Group's consolidated statement of cash flows, certain items including cash outflow for certain contract related costs previously capitalized before HKFRS 15 adoption are required to be reclassified to operating activities from investing activities. Nevertheless, the Group's total net cash flow is unaffected.

(ii) HKFRS 16 *Leases*

The Group has early adopted HKFRS 16 *Leases* from January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. In accordance with the transition provisions in HKFRS 16, the Group has elected to apply the new standard retrospectively and has restated comparatives for the prior periods presented.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognized by the Group as liabilities. Operating lease rental expenses were recognized in the consolidated income statement over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Group recognized the full lease liabilities in relation to leases which had previously been classified as "operating leases" if they meet certain criteria set out in HKFRS 16. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using effective interest method.

At the inception of a contract that contains a lease component, as a lessee, the Group should allocate the consideration in the contract to each lease component on the basis of their relative standalone price. The Group, as a lessee, assessed its leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by certain items as set out in note 2(b)(v). The right-of-use assets were recognized in the consolidated statement of financial position. Depreciation was charged on a straight-line basis over the shorter of the asset's useful life and the lease term.

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 2(a) above are restated, resulting in a decrease in retained profits attributable to equity holders of the Company as at December 31, 2016, profit attributable to equity holders of the Company for the six months ended June 30, 2017 and the year ended December 31, 2017 of HK$187 million, HK$8 million and HK$18 million respectively. The Group's EBITDA as defined and disclosed in the segment information is also restated and increased by HK$978 million and HK$1,994 million for the six months ended June 30, 2017 and the year ended December 31, 2017 respectively.

Cash payments for the settlement of lease liabilities for the six months ended June 30, 2017 of HK$953 million were required to be reclassified from operating activities to financing activities according to HKFRS 16 in the restated consolidated statement of cash flows. The Group's total net cash flow is unaffected.

2 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs *(CONTINUED)*

a. Impacts on the financial statements *(continued)*

(iii) HKFRS 9 (2014) ***Financial Instruments***

The Group has adopted HKFRS 9 (2014) *Financial Instruments* from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. In accordance with the transition provisions, the Group has adopted HKFRS 9 (2014) retrospectively with the reclassification and adjustment arising from initially applying HKFRS 9 (2014) recognized on January 1, 2018, with no restatements on the comparatives.

HKFRS 9 (2014) replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

On January 1, 2018 (the date of initial application of HKFRS 9 (2014)), the Group's management has assessed the Group's business models of management, and the contractual cash flow characteristics, of each of the Group's financial instruments, and has classified them into the appropriate categories under HKFRS 9 (2014).

Accordingly, AFS financial assets are reclassified on January 1, 2018. Certain equity investments, with carrying value of HK$1,183 million and HK$27 million, were reclassified to financial assets at FVOCI and financial assets at FVPL respectively; while certain debt investments, with carrying value of HK$890 million, were reclassified to financial assets at FVPL according to the Group's business model and the contractual cash flow characteristics of the financial instruments. Corresponding accumulated fair value gains of HK$163 million and HK$212 million were transferred from AFS financial assets reserve to financial assets at FVOCI reserve and retained profits respectively on January 1, 2018. Such reclassification has no impact on the measurement of these financial assets.

On adoption of HKFRS 9 (2014), the Group has applied the new hedge accounting model prospectively from January 1, 2018 except upon transition to HKFRS 9 (2014), the Group has elected the option to separate foreign currency basis spread and exclude it from the designated hedging instrument retrospectively, resulting in a reclassification of reserves as of January 1, 2018. The Group recognizes changes in fair value of cross currency swap contracts attributable to the foreign currency basis in costs of hedging reserve within equity. This change has been applied retrospectively for cross currency swap contracts in both cash flow hedging relationships and fair value hedging relationships resulting in a reclassification of a credit balance of HK$44 million and a debit balance of HK$182 million from retained profits and hedging reserve, respectively, to the costs of hedging reserve as at January 1, 2018.

The Group's financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 and lease receivables are subject to the new expected credit loss model for impairment assessment. The results of the adopted new impairment model as at January 1, 2018 have not resulted in material impact on the carrying amount of the Group's financial assets.

2 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs *(CONTINUED)*

b. Accounting policies adopted since January 1, 2018

(i) Revenue recognition

Sale contracts with multiple performance obligations

The Group enters into bundled sale contracts with customers in which, apart from provision of telecommunications, media and other services, the Group has certain other performance obligations to customers such as delivery of handsets, equipment and gifts. When such multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Group's performance obligations on a relative standalone selling price basis. Management estimates the standalone selling price at contract inception based on observable retail prices of the respective performance obligations in similar circumstances to similar customers. If a bundled discount is granted, it is allocated to respective performance obligations based on their relative standalone selling prices. The costs of respective handsets, equipment and gifts delivered are required to be recognized as cost of sales when the corresponding revenue is recognized.

(ii) Contract assets/liabilities

In the case of fixed price contracts, the customer pays the fixed amount based on a payment schedule. If the performance obligations fulfilled by the Group exceed the total payments received to date, a contract asset is recognized. If the total payments received to date exceed the performance obligation fulfilled, a contract liability is recognized. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional.

(iii) Fulfillment costs

Direct costs incurred in fulfilling a contract with a customer are capitalized as an asset to the extent that the cost generates or enhances resources of the Group that will be used in satisfying performance obligations in the future and are expected to be recovered. Fulfillment costs are amortized on a straight-line basis over the expected life of the customer contract.

(iv) Customer acquisition costs

Incremental costs incurred to obtain a contract with a customer are capitalized as customer acquisition costs if the Group expects to recover those costs. Costs of obtaining a contract are amortized on a straight-line basis over the expected life of the customer contract.

(v) 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 control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

Leases are initially recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets leased by the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

2 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs *(CONTINUED)*

b. Accounting policies adopted since January 1, 2018 *(continued)*

(v) Leased assets *(continued)*

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

(vi) Investments in debt and equity securities

Classification

The Group classifies its investments in debt and equity securities, other than interests in subsidiaries, associates, and joint arrangements, as:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity instrument at FVOCI.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

Initial measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

2 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs *(CONTINUED)*

b. Accounting policies adopted since January 1, 2018 *(continued)*

(vi) Investments in debt and equity securities *(continued)*

Subsequent measurement

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt instrument that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.

- FVOCI: Assets that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment losses, interest income using the effective interest rate method and foreign exchange gains and losses which are recognized in the consolidated income statement. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to the consolidated income statement and recognized in "other gains/(losses), net".

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss is recognized and presented net in the consolidated income statement within "other gains/(losses), net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity instruments at fair value. Where the Group's management has elected to present fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the consolidated income statement following the derecognition of the investment. Dividends from such investments continue to be recognized in the consolidated income statement as "other gains/(losses), net" when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in "other gains/(losses), net" in the consolidated income statement as applicable.

Impairment losses (and reversal of impairment losses) on equity instruments measured at FVOCI are not reported separately from other changes in fair value.

2 CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF NEW HKFRSs *(CONTINUED)*

b. Accounting policies adopted since January 1, 2018 *(continued)*

(vii) Hedging

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement, within finance costs.

When forward contracts are used to hedge forecast transactions, the Group designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the hedging reserve within equity. The change in the forward element is recognized in the consolidated income statement.

When cross currency swap contracts are used to hedge future cash flows, the Group designates only the change in fair value of the swap contract after exclusion of the foreign currency basis spread component as the hedging instrument. Gains or losses relating to the effective portion of the swap contract after exclusion of foreign currency basis spread component are recognized in the hedging reserve within equity. The change in fair value of the foreign currency basis spread of the swap contract to the extent it relates to the hedged item is recognized in the costs of hedging reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects the consolidated income statement, as follows:

- The gain or loss relating to the effective portion of forward contracts is recognized in the consolidated income statement as the hedged item affects profit or loss.

- The gain or loss relating to the effective portion of the cross currency swap contracts hedging borrowings in foreign currency is recognized in the consolidated income statement within finance costs at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs and affects profit or loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Hedge ineffectiveness is recognized in the consolidated income statement within finance costs.

Fair value hedges

When cross currency swap contracts are used to hedge the fair value of the recognized liabilities, the Group designates only the change in fair value of the swap contract after exclusion of the foreign currency basis spread component as the hedging instrument. Gains or losses relating to the swap contract after exclusion of foreign currency basis spread component are recognized in profit or loss within finance costs, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the foreign currency basis spread of the swap contract to the extent it relates to the hedged item is recognized within other comprehensive income in the costs of hedging reserve within equity.

(viii) Impairment of assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, contract assets and lease receivables, the Group applies the simplified approach permitted by HKFRS 9 (2014), which requires expected lifetime losses to be recognized from initial recognition of the receivables.

3 SEGMENT INFORMATION

The chief operating decision-maker (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.

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 and amortization, gain/loss on disposal of property, plant and equipment, investment properties, interests in leasehold land and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures.

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

3 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	For the six months ended June 30, 2017 (Restated)								
	Continuing operations								
	HKT	Media Business	Solutions Business	Other Businesses	PCPD	Eliminations	Total	Discontinued operations	Consolidated
REVENUE									
External revenue	14,723	1,104	1,277	–	106	–	17,210	30	17,240
Inter-segment revenue	488	661	408	–	1	(1,558)	–	–	–
Total revenue	15,211	1,765	1,685	–	107	(1,558)	17,210	30	17,240
RESULTS									
EBITDA	5,547	(52)	378	(251)	(97)	(21)	5,504	(49)	5,455

In HK$ million	**For the six months ended June 30, 2018 (Unaudited)**								
	Continuing operations								
	HKT	**Media Business**	**Solutions Business**	**Other Businesses**	**PCPD**	**Eliminations**	**Total**	**Discontinued operations**	**Consolidated**
REVENUE									
External revenue	**16,549**	**1,143**	**1,118**	**–**	**164**	**–**	**18,974**	**–**	**18,974**
Inter-segment revenue	**473**	**742**	**591**	**–**	**1**	**(1,807)**	**–**	**–**	**–**
Total revenue	**17,022**	**1,885**	**1,709**	**–**	**165**	**(1,807)**	**18,974**	**–**	**18,974**
RESULTS									
EBITDA	**5,639**	**(77)**	**271**	**(193)**	**(80)**	**(87)**	**5,473**	**–**	**5,473**

For the six months ended June 30, 2018, HK$4,335 million (2017: HK$2,806 million) of HKT revenue was recognized at a point in time.

3 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	Six months ended June 30, 2017 (Restated)	**2018 (Unaudited)**
Total segment EBITDA arising from continuing operations	5,504	**5,473**
Gain on disposal of property, plant and equipment, net	1	**1**
Depreciation and amortization	(3,439)	**(3,464)**
Other gains, net	25	**334**
Interest income	58	**71**
Finance costs	(847)	**(893)**
Share of results of associates and joint ventures	(35)	**(26)**
Profit before income tax from continuing operations	1,267	**1,496**

4 OTHER GAINS, NET

In HK$ million	Six months ended June 30, 2017 (Restated)	**2018 (Unaudited)**
Fair value movement of derivative financial instruments	(2)	**11**
Net realized gains on disposal of AFS financial assets	3	**–**
Fair value gain on financial assets at FVPL	–	**307**
Dividend income from financial assets at FVOCI	22	**27**
Provision for impairment of interests in joint ventures	–	**(9)**
Others	2	**(2)**
	25	**334**

5 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

In HK$ million	Six months ended June 30, 2017 (Restated)	**2018 (Unaudited)**
Cost of inventories sold	2,664	**4,042**
Cost of sales, excluding inventories sold	5,738	**6,110**
Depreciation of property, plant and equipment	828	**820**
Depreciation of right-of-use assets	935	**964**
Amortization of intangible assets	964	**947**
Amortization of fulfillment costs	206	**223**
Amortization of customer acquisition costs	497	**502**
Amortization of land lease premium – interests in leasehold land	9	**8**
Finance costs on borrowings	767	**790**

6 INCOME TAX

In HK$ million	Six months ended June 30, 2017 (Restated)	**2018 (Unaudited)**
Current income tax:		
Hong Kong profits tax	319	**292**
Overseas tax	44	**14**
Movement of deferred income tax	(152)	**131**
	211	**437**

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the period. Overseas tax has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the respective jurisdictions.

7 DIVIDENDS

a. Dividends attributable to the interim period

In HK$ million	Six months ended June 30, 2017 (Unaudited)	**2018 (Unaudited)**
Interim dividend declared after the end of the interim period of 8.91 HK cents (2017: 8.57 HK cents) per ordinary share	662	**688**

At a meeting held on August 7, 2018, the directors declared an interim dividend of 8.91 HK cents per ordinary share for the year ending December 31, 2018. This interim dividend is not reflected as a dividend payable in this unaudited condensed consolidated interim financial information.

b. Dividends approved and paid during the interim period

In HK$ million	Six months ended June 30, 2017 (Unaudited)	**2018 (Unaudited)**
Final dividend in respect of the previous financial year, approved and paid during the interim period of 21.18 HK cents (2017: 20.17 HK cents) per ordinary share	1,557	**1,635**
Less: dividend for PCCW Shares held by share award schemes	(4)	**(2)**
	1,553	**1,633**

8 DISCONTINUED OPERATIONS

The wireless broadband and related business component in the United Kingdom discontinued by the Group during the period ended June 30, 2018 has been presented as discontinued operations.

a. Analysis of the results of discontinued operations is as follows:

In HK$ million	Six months ended June 30, 2017 (Unaudited)
Discontinued operations	
Revenue	30
Cost of sales	(15)
General and administrative expenses	(106)
Other gains, net	1,165
Profit before income tax	1,074
Income tax	–
Profit for the period	1,074

b. Analysis of the cash flows of discontinued operations is as follows:

In HK$ million	Six months ended June 30, 2017 (Unaudited)
Net cash used in operating activities	(1)
Net cash generated from investing activities	2,393
Net increase in cash and cash equivalents	2,392

9 EARNINGS PER SHARE

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

	Six months ended June 30,	
	2017 (Restated)	**2018 (Unaudited)**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share arising from:		
Continuing operations	80	**185**
Discontinued operations	1,074	**–**
Number of shares		
Weighted average number of ordinary shares	7,719,638,249	**7,719,638,249**
Effect of PCCW Shares held under the Company's share award schemes	(16,934,119)	**(10,088,884)**
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,702,704,130	**7,709,549,365**
Effect of PCCW Shares awarded under the Company's share award schemes	7,984,225	**6,836,525**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,710,688,355	**7,716,385,890**

10 PROPERTIES HELD FOR/UNDER DEVELOPMENT

PCPD and its subsidiaries completed the acquisition of the property located at Nos. 3-6 Glenealy, Central, Hong Kong in March 2018. The consideration composed of (i) an initial cash consideration of HK$2,018 million and an adjustment to initial cash consideration of HK$146 million; and (ii) the allotment and issuance of one non-voting participating share of a wholly-owned subsidiary of PCPD to the seller which enables the seller the right to 50% of the dividend distributions. The fair value of the non-voting participating share is approximately HK$133 million and is recognized as non-controlling interests in the consolidated statement of financial position as at June 30, 2018. As at June 30, 2018, the carrying amount of HK$2,172 million was recorded as properties held for development in the consolidated statement of financial position.

11 TRADE RECEIVABLES, NET

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

In HK$ million	As at December 31, 2017 (Audited)	As at **June 30, 2018 (Unaudited)**
1 – 30 days	2,366	**2,768**
31 – 60 days	410	**649**
61 – 90 days	248	**301**
91 – 120 days	205	**194**
Over 120 days	692	**958**
	3,921	**4,870**
Less: Impairment loss for doubtful debts	(257)	**(268)**
	3,664	**4,602**

Included in trade receivables, net were amounts due from related parties of HK$61 million and HK$55 million as at June 30, 2018 and December 31, 2017 respectively.

The Group's normal credit period for customers is 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.

12 SHORT-TERM BORROWINGS

During the six months ended June 30, 2018, certain bank borrowings of approximately HK$7,423 million have been reclassified from long-term liabilities to short-term liabilities as their maturity dates fall due within the next twelve-month period. As at the date of approval of this unaudited condensed consolidated interim financial information, the Group is in the process of finalizing the documentation of the refinancing of this entire balance through long-term borrowings.

As at June 30, 2018, the Group had a total of cash and cash equivalents of HK$8,426 million, short-term deposits of HK$636 million and undrawn banking facilities of approximately HK$16,924 million.

13 TRADE PAYABLES

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

In HK$ million	As at December 31, 2017 (Audited)	As at **June 30, 2018 (Unaudited)**
1 – 30 days	1,393	**1,148**
31 – 60 days	143	**133**
61 – 90 days	43	**63**
91 – 120 days	47	**52**
Over 120 days	462	**479**
	2,088	**1,875**

Included in trade payables were amounts due to related parties of HK$38 million and HK$43 million as at June 30, 2018 and December 31, 2017 respectively.

14 SHARE CAPITAL

	Six months ended June 30, 2017 Number of shares (Unaudited)	2017 Share capital (Unaudited) HK$ million	**2018 Number of shares (Unaudited)**	**2018 Share capital (Unaudited) HK$ million**
Ordinary shares, issued and fully paid:				
As at January 1, and June 30,	7,719,638,249	12,954	**7,719,638,249**	**12,954**

a. The Company had total distributable reserves of HK$18,679 million as at June 30, 2018 (December 31, 2017: HK$18,905 million).

15 SHARE AWARD SCHEMES OF THE COMPANY AND SHARE STAPLED UNITS AWARD SCHEMES OF HKT

Pursuant to the two share incentive award schemes of the Company, namely the Purchase Scheme and the Subscription Scheme (collectively the "PCCW Share Award Schemes") and the two award schemes of HKT, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "HKT Share Stapled Units Award Schemes"), the Company and HKT have awarded a number of PCCW Shares and Share Stapled Units to eligible employees of the Company and/or its participating companies during the six months ended June 30, 2018.

A summary of movements in the PCCW Shares and the Share Stapled Units held under the PCCW Share Award Schemes and the HKT Share Stapled Units Award Schemes are as follows:

	Six months ended June 30, 2017	
	Number of PCCW Shares (Unaudited)	Number of Share Stapled Units (Unaudited)
As at January 1, 2017	17,516,120	5,535,553
Purchase from the market by the trustee at weighted average market price of HK$4.78 per PCCW Share/HK$10.40 per Share Stapled Unit	3,441,000	1,379,000
PCCW Shares/Share Stapled Units vested	(7,265,554)	(5,271,780)
As at June 30, 2017	13,691,566	1,642,773

	Six months ended June 30, 2018	
	Number of PCCW Shares (Unaudited)	**Number of Share Stapled Units (Unaudited)**
As at January 1, 2018	**12,480,566**	**1,642,773**
Purchase from the market by the trustee at weighted average market price of HK$4.63 per PCCW Share/HK$9.91 per Share Stapled Unit	**3,634,000**	**2,027,000**
PCCW Shares/Share Stapled Units vested	**(9,271,669)**	**(3,476,824)**
As at June 30, 2018	**6,842,897**	**192,949**

The weighted average fair values of the PCCW Shares and the Share Stapled Units awarded during the six months ended June 30, 2018 at the dates of award are HK$4.64 (2017: HK$4.60) per PCCW Share and HK$9.96 (2017: HK$10.04) per Share Stapled Unit respectively, which are measured by the quoted market price of the PCCW Shares and the Share Stapled Units at the respective award dates respectively.

16 CAPITAL COMMITMENTS

In HK$ million	As at December 31, 2017 (Audited)	As at **June 30, 2018 (Unaudited)**
Authorized and contracted for	1,412	**1,374**

Included in the capital commitments were commitments of HK$1,153 million and HK$1,193 million for the purchase of property, plant and equipment as at June 30, 2018 and December 31, 2017 respectively.

Additions of property, plant and equipment were HK$1,713 million and HK$1,518 million for the six months ended June 30, 2018 and 2017 respectively.

As disclosed in the announcement of PCPD dated July 20, 2018 (the "Announcement"), an indirect wholly-owned subsidiary of PCPD entered into a construction contract for design and construction of a branded hotel in Hokkaido, Japan with the contract sum of JPY16,280 million (approximately HK$1,131 million). For details, please refer to the Announcement.

17 CONTINGENT LIABILITIES

In HK$ million	As at December 31, 2017 (Audited)	As at **June 30, 2018 (Unaudited)**
Performance guarantees	572	**593**
Others	130	**130**
	702	**723**

The Group operates across several jurisdictions and is subject to certain queries from relevant tax authorities in respect of tax treatment of certain matters currently under way. As at June 30, 2018, the Group is unable to ascertain the likelihood of the outcome of these tax queries, other than those provided for. Based on the currently available information and assessment, the directors are of the opinion that these cases will not have a significant financial impact to the Group.

The Group is also 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.

18 CHARGE ON ASSETS

Security pledged for certain bank loan facilities includes:

In HK$ million	As at December 31, 2017 (Audited)	As at June 30, 2018 (Unaudited)
Property, plant and equipment	89	**155**
Property held for development	–	**2,172**
Financial assets at FVOCI	–	**985**
AFS financial assets	1,039	**–**
Cash and cash equivalents	–	**6**
	1,128	**3,318**

19 RELATED PARTY TRANSACTIONS

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

In HK$ million	Note	Six months ended June 30, 2017 (Unaudited)	Six months ended June 30, 2018 (Unaudited)
Telecommunications service fees, facility management service charges, interest income and other recharge costs received or receivable from joint ventures	a	28	**23**
Consultancy service charges and interest income received or receivable from an associate	a	8	**8**
Telecommunications service fees, system integration charges and data center hosting service fees received or receivable from a substantial shareholder	a	55	**102**
Telecommunications service fees, equipment purchase costs, outsourcing fees and rental charges paid or payable to joint ventures	a	149	**162**
Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder	a	46	**56**
Telecommunications service fees paid or payable to an associate	a	9	**6**
Key management compensation	b	71	**54**

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.

19 RELATED PARTY TRANSACTIONS *(CONTINUED)*

b. Details of key management compensation

In HK$ million	Six months ended June 30, 2017 (Unaudited)	**2018 (Unaudited)**
Salaries and other short-term employee benefits	61	**40**
Share-based compensation	8	**12**
Post-employment benefits	2	**2**
	71	**54**

20 FINANCIAL INSTRUMENTS

a. Financial risk factors

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.

The unaudited condensed consolidated interim financial information does not include all financial risk management information and disclosures as required in the annual consolidated financial statements. It should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017. There have been no material changes in the financial management policies and practices since December 31, 2017.

b. 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).

20 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Estimation of fair values *(continued)*

The following table presents the Group's financial instruments that are measured at fair value as at December 31, 2017:

In HK$ million	As at December 31, 2017 (Audited)			
	Level 1	Level 2	Level 3	Total
Assets				
AFS financial assets				
– Listed securities	1,133	–	–	1,133
– Unlisted 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)

20 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Estimation of fair values *(continued)*

The following table presents the Group's financial instruments that are measured at fair value as at June 30, 2018:

In HK$ million	As at June 30, 2018 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at FVOCI (non-current)				
– Listed securities	**1,049**	**–**	**–**	**1,049**
– Unlisted securities	**–**	**–**	**77**	**77**
Financial assets at FVPL (non-current)				
– Listed securities	**14**	**–**	**–**	**14**
– Unlisted securities	**–**	**–**	**742**	**742**
Financial assets at FVPL (current)				
– Unlisted securities	**–**	**–**	**350**	**350**
Derivative financial instruments (non-current)	**–**	**283**	**–**	**283**
Derivative financial instruments (current)	**–**	**4**	**–**	**4**
Total assets	**1,063**	**287**	**1,169**	**2,519**
Liabilities				
Contingent consideration payable	**–**	**–**	**(4)**	**(4)**
Derivative financial instruments (non-current)	**–**	**(191)**	**(32)**	**(223)**
Total liabilities	**–**	**(191)**	**(36)**	**(227)**

20 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. 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 financial assets at FVOCI and financial assets at FVPL 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 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 unlisted equity investments in several companies and debt investments classified as financial assets at FVOCI or financial assets at FVPL; and the OTT Preference Shares Option and the OTT Preference Shares Derivative (as defined in note 35 of the annual consolidated financial statements for the year ended December 31, 2017) 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 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 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.

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.

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.

20 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Estimation of fair values *(continued)*

Key assumptions used for the valuations of these level 3 instruments are:

i. OTT Preference Shares Derivative

- Underlying OTT Preference Share (as defined in note 35 of the annual consolidated financial statements for the year ended December 31, 2017) price: US$10.0 (December 31, 2017: US$10.0)
- Liquidity discount: 22.0% (December 31, 2017: 22.0%)

ii. Other unlisted investments

- Market multiples (based on price earnings multiples or enterprise value/earnings before interest and tax multiples of comparable companies): 3 – 20 (December 31, 2017: 3 – 20)
- Liquidity discount: 15% – 30% (December 31, 2017: 15% – 30%)

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the six months ended June 30, 2018.

There were no material changes in valuation techniques during the six months ended June 30, 2018.

The following table presents the changes in level 3 assets/(liabilities) during the six months ended June 30, 2017 and 2018:

In HK$ million	2017 (Unaudited)	
	AFS financial assets – unlisted securities	Contingent consideration payable
At January 1,	1,045	(22)
Additions	15	–
Disposals	(6)	–
Unrealized fair value gain transferred to equity	4	–
At June 30,	1,058	(22)

20 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Estimation of fair values *(continued)*

In HK$ million	2018 (Unaudited)			
	Financial assets at FVOCI – unlisted securities	Financial assets at FVPL – unlisted securities	Derivative financial instruments – OTT Preference Shares Option and OTT Preference Shares Derivative	Contingent consideration payable
At January 1, (restated)	77	811	(44)	(22)
Additions	–	75	–	–
Disposals	–	(63)	–	–
Settlement	–	–	–	18
Fair value gain recognized in other gains, net	–	269	12	–
At June 30,	77	1,092	(32)	(4)

During the six months ended June 30, 2017 and 2018, there was no provision for impairment recognized in the consolidated income statement.

c. 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.

d. Fair values of financial assets and liabilities measured at amortized cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2017 and June 30, 2018 except as follows:

In HK$ million	As at			
	December 31, 2017 (Audited)		**June 30, 2018 (Unaudited)**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Long-term borrowings	(46,613)	(47,201)	**(40,494)**	**(40,276)**

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.

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 June 30, 2018, the directors and chief executives of the Company and their respective close associates had the following interests or short positions in the shares, share stapled units jointly issued by HKT Trust and HKT Limited (the "Share Stapled Units"), underlying shares, underlying Share Stapled Units and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

1. Interests in the Company

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

Name of Director/Chief Executive	Number of ordinary Shares held Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of Shares 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	782,138	–	–	2,963,665 *(Note 2)*	3,745,803	0.05%
Hui Hon Hing, Susanna	5,397,585	–	–	1,367,629 *(Note 2)*	6,765,214	0.09%
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%

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

1. Interests in the Company *(continued)*

Notes:

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.

   (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 Pacific Century Regional Developments Limited ("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.

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

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:

	Number of Share Stapled Units held					
Name of Director/Chief Executive	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	112,095	–	–	95,744 *(Note 2)*	207,839	0.003%
Hui Hon Hing, Susanna	3,049,620	–	–	629,253 *(Note 3)*	3,678,873	0.05%
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%

Each Share Stapled Unit confers an interest in:

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

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

Under the trust deed dated November 7, 2011 constituting the HKT Trust entered into between HKT Management Limited (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.

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)*

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 an award made to BG Srinivas which was 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 June 30, 2018, 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 of directors of the Company (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.

No share options have been granted under the 2014 Scheme since its adoption and up to and including June 30, 2018.

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 Company and its subsidiaries (the "Group") and to attract suitable personnel for further development of the Group.

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 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") 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.

The Purchase Scheme and the Subscription Scheme expired on November 15, 2012 and new scheme rules in respect of the Purchase Scheme and the Subscription Scheme were adopted on the same date 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 the Purchase Scheme, during the six months ended June 30, 2018, an aggregate of 8,600,392 Shares and 1,347,040 Share Stapled Units were awarded pursuant to the Purchase Scheme subject to certain vesting conditions, including awards in respect of 4,059,207 Shares made to BG Srinivas, and 839,318 Shares and 120,158 Share Stapled Units made to Hui Hon Hing, Susanna (both of them are directors of the Company). Additionally, no Shares have lapsed and/or been forfeited and 5,647,148 Shares have vested; and 31,924 Share Stapled Units have lapsed and/or been forfeited and 1,273,854 Share Stapled Units have vested during the period. As at June 30, 2018, 9,668,373 Shares and 1,994,005 Share Stapled Units awarded pursuant to the Purchase Scheme remained unvested.

In respect of the Subscription Scheme, during the six months ended June 30, 2018, an aggregate of 4,108,690 Shares were awarded pursuant to the Subscription Scheme subject to certain vesting conditions. Additionally, 158,811 Shares have lapsed and/or been forfeited and 3,624,521 Shares have vested during the period. As at June 30, 2018, 5,992,856 Shares awarded pursuant to the Subscription Scheme remained unvested. During the six months ended June 30, 2018, 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, 2018 and June 30, 2018, no Share Stapled Units awarded pursuant to the Subscription Scheme remained unvested.

Please also refer to the summary of movements in the Shares and the Share Stapled Units held under the above schemes which is set out in note 15 to the unaudited condensed consolidated interim financial information on page 50.

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 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 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.

No Share Stapled Unit options have been granted under the HKT 2011-2021 Option Scheme since its adoption and up to and including June 30, 2018.

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 (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.

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 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") 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.

During the six months ended June 30, 2018, an aggregate of 2,694,178 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 268,525 Share Stapled Units made to Hui Hon Hing, Susanna (a director of the Company). Additionally, 39,074 Share Stapled Units have lapsed and/or been forfeited and 2,202,970 Share Stapled Units have vested during the period. As at June 30, 2018, an aggregate of 3,841,696 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested. 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 June 30, 2018.

Please also refer to the summary of movements in the Share Stapled Units held under the above scheme(s) which is set out in note 15 to the unaudited condensed consolidated interim financial information on page 50.

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

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 shall be entitled to offer to grant a share option to any eligible participant whom the board of directors of PCPD may, at its absolute discretion, select.

No share options have been granted under the 2015 PCPD Scheme since its adoption and up to and including June 30, 2018.

Save as disclosed above, at no time during the period 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 period under review.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at June 30, 2018, the following persons (other than directors or chief executives of the Company) were substantial shareholders of the Company 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
Long Positions			
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%
BlackRock, Inc.	*6*	396,113,139	5.13%
Short Positions			
BlackRock, Inc.	*7*	581,028	0.01%

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.

6. These long positions represented interests of controlled corporations which included derivative interests in 211,000 underlying Shares derived from unlisted and cash settled equity derivatives. The interests were disclosed based on the disclosure of interest filing made by BlackRock Inc. on March 16, 2018.

7. These short positions represented derivative interests of controlled corporations in 581,028 underlying Shares derived from unlisted and cash settled equity derivatives. These short positions were disclosed based on the disclosure of interest filing made by BlackRock Inc. on March 16, 2018.

For identification only

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

As at June 30, 2018, the following person (other than directors or chief executives or substantial shareholders (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
Long Positions			
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 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 June 30, 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2018. Such condensed consolidated interim financial information has not been audited but has been reviewed by the Company's independent auditor.

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 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 interim report.

CORPORATE GOVERNANCE CODE

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.

The Company has applied the principles, and complied with all applicable code provisions of the Corporate Governance Code in each case as set out in Appendix 14 to the Listing Rules during the six months ended June 30, 2018.

During the period covered by this report, in support of their responsibility for the risk management and internal control systems, the directors have sought and received from the Company's management a report on the risk management and internal control systems, including an assurance that, based on the Company's ongoing assessment and validation activities, they are not aware of any material risks or internal control deficiencies which are not being adequately and appropriately mitigated and/or managed.

INVESTOR RELATIONS

DIRECTORS
The directors of the Company as at the date of the announcement of the 2018 Interim 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
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Quarry Bay, Hong Kong
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Fax: +852 2877 8877

INTERIM REPORT 2018
This Interim Report 2018 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 Interim Report 2018 using electronic means through the website of the Company may request a printed copy, or
B) received the Interim Report 2018 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 Interim Report 2018) using electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Interim Report 2018 will promptly, upon request in writing or by email to the Company's Share Registrar, be sent the Interim Report 2018 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.

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
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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 June 30, 2018:	7,719,638,249 shares

DIVIDEND

Interim dividend per ordinary share for the six months ended June 30, 2018	8.91 HK cents

FINANCIAL CALENDAR

Announcement of 2018 Interim Results	August 7, 2018
Closure of register of members	August 30 – 31, 2018 (both days inclusive)
Record date for 2018 interim dividend	August 31, 2018
Payment of 2018 interim dividend	On or around October 10, 2018

INVESTOR RELATIONS
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Email: ir@pccw.com

WEBSITE
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Forward-Looking Statements

This interim 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 interim report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this interim report.

PCCW Limited (Incorporated in Hong Kong with limited liability)

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