HKT®

Annual Report 2018

Stock Code: 6823

a PCCW Group member

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CORPORATE PROFILE

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

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

HKT also provides a range of innovative and smart living services beyond connectivity to make the daily lives of customers smarter, whether they are at home, in the workplace, or on the go. Consumers and merchants alike may also enjoy HKT's financial-related services such as mobile payment, smart mobile point-of-sale solutions, and insurance.

For enterprises, HKT delivers end-to-end integrated solutions employing emerging technologies such as cloud computing, Internet of Things (IoT) and Artificial Intelligence (AI) to accelerate their digital transformation, contributing to Hong Kong's development into a smart city.

The Club is HKT's loyalty program and one of the largest of its kind in Hong Kong, not only offering a variety of privileges and benefits to enrich the lifestyle of members, but also increasingly amalgamating merchants and becoming an integral part of a new digital ecosystem connecting consumers and merchants.

Employing approximately 17,200 staff, HKT is headquartered in Hong Kong and maintains a presence in mainland China as well as other parts of the world.

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

To learn more about some of our brands and our services, please turn over the page.

Fixed Line

HKT's fixed line service provides reliable local and international call services for its residential and business users. eye Smart Communications Service is a comprehensive service including audio and video call functionality, and access to more than 100 educational and infotainment apps which are suitable for all family members.

HKT is Hong Kong's largest broadband service provider with its territory-wide fiber network covering 88.3% of homes and 7,400 non-residential buildings. We meet customers' different needs through the HKT Premier, NETVIGATOR and LiKE 100 brands. We provide an array of value added services to ensure a high-quality and safe online experience, as well as to meet customers' aspirations for a smarter home.

CSL Mobile provides comprehensive mobile voice and data services via the csl and 1010 brands. csl provides superior mobile service that enables customers to enjoy unlimited voice calls, value-added services and smartphone workshops. 1010 provides a supreme mobile lifestyle experience to meet the needs of discerning customers requiring service excellence. In addition, SUN Mobile is a joint venture offering mobile voice and data services at affordable prices.

HKT Enterprise Solutions

In addition to connectivity services, HKT deploys the latest technologies and digital solutions to assist enterprises in transforming their businesses. Powered by our best-in-class fixed and mobile networks, HKT's end-to-end integrated Enterprise Solutions enable companies to enhance operational efficiency and gain business insights.

PCCW Global

PCCW Global operates a Tier-1 global Internet backbone driven by a software-defined interconnection platform, Console Connect, which provides enterprises and service providers with easy on-demand access to cloud-based, business critical applications.

Its global network connects more than 3,000 cities and 150 countries in the world. PCCW Global maintains regional centers in 11 countries worldwide.

THE CLUB CLUB Travel

Tap & Go HKT Merchant Services

With more than 200 merchants as coalition partners, HKT's loyalty program The Club helps retain customers and provides us with insights to personalize offerings to its members. We will explore to build different verticals on this platform. Club Travel is an airline and hotel booking and tour service for consumers and corporate customers.

We also offer Tap & Go mobile wallet service and HKT Merchant Services solutions to the retail sector.

STATEMENT FROM THE CHAIRMAN

I am pleased to report that HKT's core businesses recorded a satisfactory performance and a further increase in AFF (adjusted funds flow) for the year ended December 31, 2018.

During last year, HKT continued its digital transformation to enhance operational efficiency as well as improving customer experience and satisfaction. The deployment of data analytics and Artificial Intelligence in predictive and propensity modeling has helped us to improve customer retention and gain business insights in cross selling our quadplay services. Our continued virtualization of both the local and international networks enhances our network efficiency while affording enterprise customers greater flexibility and convenience.

As an innovation leader, and in alignment with the Hong Kong Government's Smart City vision, HKT has also been actively promoting smart home and smart business solutions for individuals and enterprises. Consumers benefit from our greater penetration of fiber network and continuous rollout of value-added services. On the enterprise side, we offer a range of cloud and digital solutions such as Hong Kong's first e-parking service at a shopping mall and the provision of a digital, high definition CCTV system for the Hong Kong Airport Authority.

HKT believes that rational pricing behavior among operators in the mobile communications market is essential for the sustainable development of the industry. Furthermore, we look forward to a more benign government spectrum policy, which is especially important for the upcoming 5G services in particular for smart city and B2B applications.

HKT's loyalty program The Club is a unique asset which not only serves to help retain customers, but also underpins our effort to personalize offerings to its 2.7 million members. With the increasing addition of merchant partners, The Club is evolving into an ecosystem of its own. This platform will facilitate HKT to grow into adjacencies, such as travel, insurance and virtual banking.

In 2019, HKT will continue to be prudent on spending and aim to grow on its fundamental strengths into new verticals in order to deliver stable return to unitholders.

Richard Li
Chairman
February 22, 2019

STATEMENT FROM THE GROUP MANAGING DIRECTOR

2018 was a year of both hard work and satisfying rewards for HKT as the company steadily implemented its strategies to strengthen its existing businesses and to seek further growth in new areas. HKT is Hong Kong's leading operator in fixed line, broadband and mobile communications serving an immense base of individual and business customers. Together with the content proposition of our parent group, PCCW Limited, we offer customers a unique quadplay experience. Our local and global connectivity and enterprise solutions services enable businesses to enhance their efficiency and productivity so as to better serve their customers.

It is my pleasure to present in the following sections highlights of our activities and accomplishments in the past year and the company's prospects in the year ahead.

HELPING CUSTOMERS BUILD A SMART HOME

Despite intense market competition, HKT's broadband business performed steadily last year with continued gains in new subscriptions and upgrades to our high-speed fiber service.

NETVIGATOR offers customers a broad spectrum of services with different functionalities and speeds, including a unique service which enables a household to have the benefit of four individual circuits of 1 Gbps speed each via a single fiber. Close to 300,000 homes in Hong Kong now enjoy our home Wi-Fi solutions as a service enhancement to our high-speed broadband connectivity. As smart networking and smart home features become increasingly popular, we are continuously elevating our service level to meet customers' evolving needs at home for entertainment, gaming, security, health and wellness, and other smart living installations.

For the more discerning customers, HKT Premier offers a first-class experience with personalized customer care and support, and tailor-made one-stop solutions from dedicated relationship account managers. For the value-seeking segment, LiKE100 offers high-speed broadband at irresistibly affordable price levels.

LEADING THE MOBILE COMMUNICATIONS MARKET

Our mobile service subsidiary CSL Mobile operates three brands – 1010, csl and, through a joint venture, Sun Mobile – to cater for different customer segments from premium, business, travelers, gamers to families. Our extensive acquisition and retention efforts, including initiatives of our loyalty program The Club, coupled with data analytics, enabled us to record an expansion of the overall customer base last year amid a highly competitive market environment. In particular, 1010's customer base grew significantly by 27% in 2018, reflecting customers' appreciation of our brand supremacy and the premium customer experience behind it.

We continued to deepen engagement with customers by offering attractive and affordable value-added services. Our roaming and travel passes, data plans for the Greater China area, the MOOV music app, Now E one-stop media entertainment platform, handset protection service, etc. have been well received by customers.

On handset sales, HKT offers customers a wide range of brands and models at different price levels. Overall handset sales last year significantly surpassed that of the previous year despite the rather moderate market response to the new iPhone models introduced in the second half, as Android phones, especially the Mainland brands, started to receive strong customer acceptance.

SMART BUSINESS SOLUTIONS

HKT's enterprise business recorded a robust performance in local data connectivity and cloud services amid a generally benign local economic environment last year. For enterprises, HKT is a trusted partner in terms of not only connectivity services, but also the deployment of technologies and digital solutions to enhance operational efficiency and gain business insights. Earlier last year, we announced an IoT ecosystem with multiple connectivity technologies – powered by HKT's best-in-class fixed and mobile networks – to assist enterprises in transforming their businesses.

In November, we applied IoT technologies in a collaboration with a large shopping mall in Tsim Sha Tsui to present Hong Kong's first e-parking service for a mall. Visitors can remotely reserve a parking space, locate it, and pay for the parking fee conveniently via an app. HKT also provides networking system, structural cabling, electrical work and project management for the provision of a digital, high definition CCTV (closed circuit TV) system at the Hong Kong International Airport, which includes the installation of over 4,000 digital cameras at the airport.

Internationally, PCCW Global operates a Tier-1 global Internet backbone, now driven by a software-defined interconnection platform, Console Connect, which provides enterprises and service providers with easy on-demand access to cloud-based, business critical applications. In the past year, Console Connect expanded significantly providing connections to some of the world's most prominent cloud providers in data centers globally.

PCCW Global has considerable experience in designing, building and maintaining submarine cables around the world. We maintain extensive coverage in the Intra-Asia region with systems such as Reach North Asia Loop (connecting Hong Kong, Korea, Japan and Taiwan) and the Intra Asia Cable System (connecting Hong Kong, Singapore and Japan with additional connections to the Philippines and Vietnam). Demand driven by large content providers and high bandwidth route diversity continue to be the primary reasons for growth in Transpacific cable capacity. PCCW Global has added inventory for key routes such as PLCN (connecting Hong Kong and West Coast of the US with target operation this year) and JUPITER (connecting Japan with the US with target operation in 2020), in addition to Faster (connecting Taiwan, Japan and West Coast of the US) which is currently in operation. Along the Europe-Asia route, PCCW Global is a founding member of AAE-1 which connects Southeast Asia to Europe through the Middle East and Africa.

In 2018, PCCW Global played a key managerial role in the project management and construction of the Mauritius and Rodrigues Submarine Cable System and, separately, the cable branch extension of Mediterranean Express Submarine Cable System to Algeria, which have facilitated improved access and reliable connectivity for those markets.

A FIBER-RICH INTEGRATED NETWORK

Over the years, HKT has invested in building the most extensive fiber broadband network in Hong Kong. Our FTTH (fiber-to-the-home) now covers over 88% of households. Our fiber network also links approximately 7,400 non-residential buildings and covers 76% of the commercial properties in the city. Last year, we continued our efforts to extend fiber coverage to more remote residential areas.

To meet the rising data traffic and demand for high-speed connectivity, HKT is building a super-high capacity subsea fiber optic cable connecting Tseung Kwan O Industrial Estate (TKOIE) and Chai Wan. When completed later this year, the cable, known as Ultra Express Link, will provide robust, reliable, low latency and diverse connectivity and will help foster the development of TKOIE to become a data center hub in Asia.

Our fiber-rich fixed network is integrated with a wireless network that comprises approximately 3,000 indoor and outdoor cell sites as well as over 21,700 Wi-Fi hotspots. Our local network is extended by our international network, operated through PCCW Global, which connects more than 3,000 cities and 150 countries. This network enables HKT to continually deliver the highest-quality digital experience for both our consumer and enterprise customers and positions us for the upcoming 5G era, which requires a highly capillary network infrastructure.

USHERING IN THE 5G ERA

HKT supports the introduction of 5G mobile technology in Hong Kong as an enabler of smart city initiatives. Last June, we successfully conducted trials for the commercial deployment of 5G. Field tests in both a stationary environment and outdoor mobility conditions yielded good results, with peak data speeds reaching 8 Gbps in a stationary environment and 6 Gbps when the terminal was inside a moving vehicle.

In November, HKT announced a project to build Hong Kong's first all-fiber mobile network architecture on a new Mass Transit Railway link using an innovative system to enable multiple operators sharing the network to provide ubiquitous high-quality mobile broadband service. This network infrastructure has the capability to evolve into 5G without the need for additional cabling.

HKT is pleased that the Government has announced plans for administrative assignment, in the first half of 2019, of spectrum in the 26/28 GHz band for 5G use. Spectrum in other bands (3.3 GHz, 3.5 GHz and 4.9 GHz) for 5G is scheduled for auctions separately later this year, although the industry would have preferred a combined exercise to assign the spectrum. In anticipation of the arrival of 5G and smart city initiatives, HKT has already embarked on a number of related projects on smart energy, smart lamp post, smart kiosk, smart recycling, and smart mobility.

HEALTHY MARKET DEVELOPMENT

As Hong Kong's leading mobile service operator, HKT embraces competition as a vital feature of a free market. However, it is also important that industry conditions are conducive to making the necessary ongoing investments in order to ensure robust and effective competition, and to maintain Hong Kong as one of the leading mobile industries globally and fulfill its Smart City vision.

HKT has already taken a number of steps including the acquisition of CSL and enhancement of tariff plans to ensure we have the necessary resources and capabilities to deliver the future service needs of our customers. Our primary focus is on differentiating our business through network quality, innovation and customer service. While there have been some positive signs from our industry peers in terms of pricing and consolidation activities, market share focused competition is still evident at the lower end of the market. Notwithstanding this, HKT will be steadfast in its dedication to investing and providing innovative, value-added services to customers.

TOWARDS A MORE FACILITATIVE REGULATORY ENVIRONMENT

HKT further believes that greater collaboration between the private and the public sectors is important to optimize the benefits that the latest technologies can bring to the Hong Kong public. In this regard, HKT looks forward to working closely with the Government on more facilitative spectrum policies for Hong Kong that will encourage the industry's investment into the future.

In December, the Government re-auctioned spectrum in the 900 MHz and 1800 MHz bands some of which has been allocated to the mobile operators since the 1980s. HKT secured in the auction bands which will enable us to deploy two contiguous blocks of spectrum in the two bands from 2021. HKT is the only operator in Hong Kong with contiguous blocks in both spectrum bands, and these can be utilized more efficiently and in a more cost-effective manner.

HKT participated in the auction to ensure we can continue to offer the best mobile service. However, we continue to believe that policies in Hong Kong relating to spectrum management need to be reviewed. This is particularly important for the management of spectrum on the expiry of existing assignments as operators will have made substantial investments in order to use the spectrum. It is also important in order to ensure that operators are able to provide quality, sustainable services to customers. HKT would welcome continuous dialogue with the Government on this matter.

A SMART FUTURE FOR HONG KONG AND BEYOND

In support of the Hong Kong Government's Smart City blueprint, HKT and Hong Kong Applied Science and Technology Research Institute (ASTRI) established the HKT-ASTRI Smart City Joint Laboratory last November to leverage the R&D expertise of both parties to pursue advanced technologies and innovative solutions for Hong Kong as well as the Greater Bay Area (GBA). Some initial projects will focus on smart city applications such as smart mobility including V2X (vehicle-to-everything) and electronic road pricing, smart lamp post, blockchain, data analytics and AI (Artificial Intelligence).

Meanwhile, through PCCW Global, we also collaborate with the Hang Seng University of Hong Kong's Policy Research Institute of Global Supply Chain (PRISC) to conduct high-level research on smart city applications and infrastructure, as well as technologies such as IoT, big data and cloud computing, for projects in the GBA and around the world.

PCCW Global has also signed an agreement with the Administration Committee of Hengqin New District in Guangdong to capture opportunities brought by the opening of the Hong Kong-Zhuhai-Macao Bridge and the GBA development, and to accelerate cooperation among these cities in the fields of telecommunications and technological innovation.

HKT has already established offices in several GBA cities to support the end-to-end delivery of ICT (Information and Communications Technology) services and solutions to enterprise customers in the area. For IPVPN (Internet Protocol Virtual Private Network), we have established points of presence in most of the GBA cities and aim to install nodes in the remaining cities this year.

BEYOND TELECOMMUNICATIONS

In recent years, HKT has sown seeds in a number of new businesses to broaden its revenue streams. The Club is HKT's loyalty program and one of the largest of its kind in Hong Kong with membership reaching 2.7 million. It offers members numerous benefits and privileges on its online platform, including merchandise items and events. Not only does it help retain customers, but it also provides us with insights to personalize offerings to its members. This unique HKT asset is evolving to become an ecosystem of its own, continuously amalgamating merchant partners to enrich our offerings, with more than 200 merchant partners currently providing approximately 2,300 SKUs (stock keeping units) of merchandise.

On this platform, we will explore to build different verticals including travel, insurance and financial services including virtual banking. In August 2018, The Club commenced an airline and hotel booking and tour service for consumers and corporate customers under the brand Club Travel.

As to our mobile payment service, I am pleased to report that HKT Payment Limited, a Stored Value Facilities (SVF) License holder, last year recorded continuous growth in both customer accounts of Tap & Go mobile payment service and transaction values. For merchants, we have also introduced a portable point-of-sale device, Smart POS, to facilitate acceptance of all common electronic payments with a single device. This forms a component of the total solutions suite offered by HKT to the retail sector.

Following a collaboration with UnionPay International to provide Tap & Go customers with a HKD-RMB dual-currency wallet, last November HKT Payment began working with Western Union, a leader in cross-border, cross-currency money movement, to facilitate customers to send money to their families and friends around the world.

LOOKING AHEAD

Our objective is to continue to build on the solid foundation of HKT and to safeguard and maintain our leadership position across all lines of business. At the same time, we shall endeavor to pursue innovation and explore new business models and revenue streams, leveraging our current extensive infrastructure and market knowledge. As individuals adopt the digital lifestyle and businesses accelerate their digital transformation, we will also continue to embed and embrace development in the digital space, and act with agility and resolve to reap the digital dividend.

Backed by our comprehensive infrastructure and ICT experience, the company will actively participate in the smart city evolution which we believe will improve the quality of life in Hong Kong and create new business opportunities.

In 2019, whilst continuing to be prudent, we will build on our strengths and explore new growth drivers. Our aim is to optimally allocate resources into our existing robust operations and new businesses for the continued prosperity and growth of the company.

Last but not least, I would like to take this opportunity to express my gratitude to the Board for its guidance, and to the entire HKT team and Mr. Alex Arena, who retired from his position as Group Managing Director on August 31, for their contribution.

Susanna Hui
Group Managing Director
February 22, 2019

HKT IN NUMBERS

2.631M

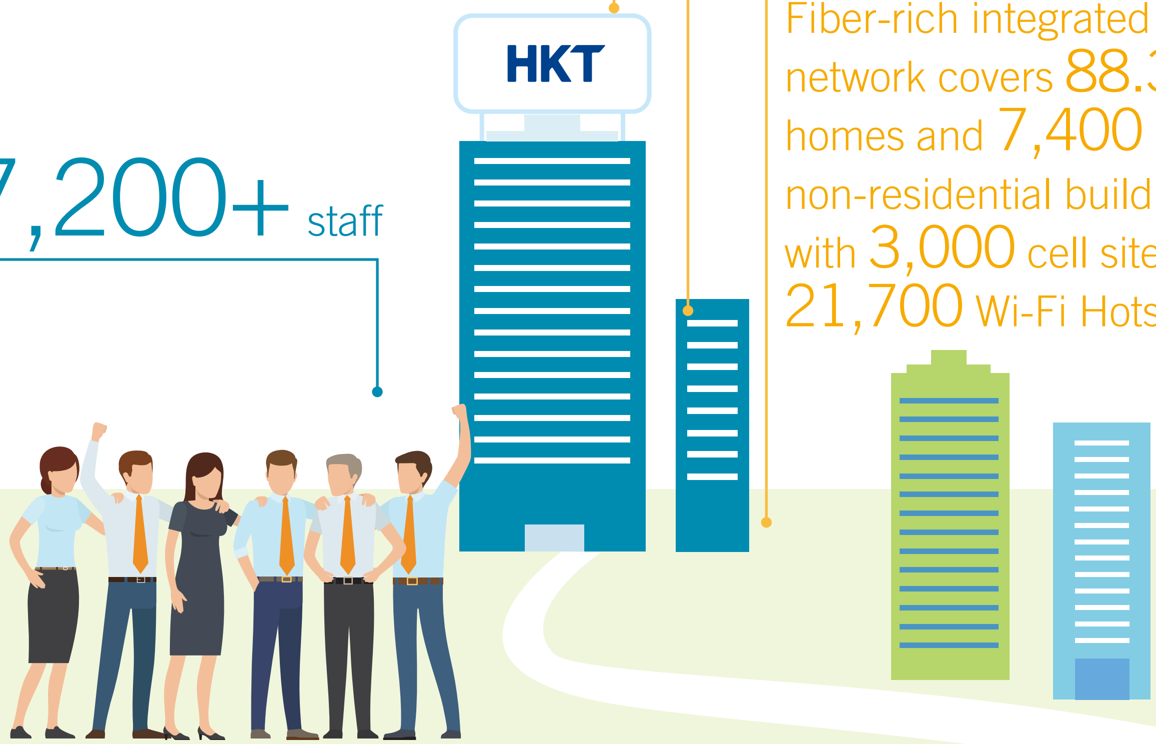
exchange lines including 1.380M residential lines and 1.251M business lines

1.615M

broadband access lines including 1,455K consumer lines (with 781K FTTH lines) and 158K business lines

Fiber-rich integrated network covers **88.3%** of homes and **7,400** non-residential buildings, with **3,000** cell sites and **21,700** Wi-Fi Hotspots.

17,200+ staff



1,662

staff training programs and seminars

20,532

volunteer service hours in 44 ongoing and special community programs

Global network connecting

3,000+ cities

and 150 countries

4.324M

mobile subscribers including 3.247M post-paid subscribers

2.7M

members of The Club and 200+ merchant partners

1.8M

accounts in service

Total revenue

HK$35.187 billion

Total EBITDA

HK$12.558 billion

Profit attributable to holders of Share Stapled Units

HK$4.825 billion

Adjusted funds flow

HK$5.171 billion

Total distribution per Share Stapled Unit

68.29 HK cents

SIGNIFICANT EVENTS IN 2018

JANUARY

HKT showcases a one-stop Internet of Things (IoT) ecosystem with multiple connectivity technologies for enterprises.

FEBRUARY

HKT reports financial results for the year ended December 31, 2017.

HKT introduces CSL connected-car solution and Tap & Go in Jumbo Taxi vehicles.

HKT launches Star Home Call mobile app for customers to control a number of features on their residential fixed line telephones.

MARCH

Tap & Go and UnionPay International launch Hong Kong's first dual-currency mobile wallet Tap & Go UnionPay Prepaid Card.

APRIL

The Club launches WeChat Go Club SIM for travelers from mainland China.

HKT introduces Iris, a smart cloud-based service transforming surveillance video streams into intelligent business insights.

MAY

PCCW Global introduces Console Connect, the industry's first software defined interconnect platform powered by a leading Tier 1 global IP network available in 150 countries.

JUNE

HKT successfully conducts trials for the commercial deployment of 5G mobile technology.

AUGUST

HKT reports financial results for the six months ended June 30, 2018.

SEPTEMBER

Ms. Susanna Hui is appointed Group Managing Director of HKT.

HKT opens a Digital Transformation Practice Center in Hong Kong.

HKT Merchant Services launches Smart POS mobile payment acceptance service.

The Club introduces Club Travel airline and hotel booking services.

Tap & Go connects to the Faster Payment System to enhance mobile payment experience for customers and merchants.

OCTOBER

Console Connect provides on-demand direct connections to Google Cloud across Asia, Europe and the Americas for enterprises.

NOVEMBER

Tap & Go and Western Union collaborate to provide online global money transfer service for Tap & Go users.

HKT and The Hong Kong Applied Science and Technology Research Institute form a partnership in pursuit of Smart City solutions for Hong Kong.

1O1O launches Hong Kong's first e-Parking services at Mira Place shopping mall.

HKT builds Hong Kong's first 5G all-fiber shared indoor digital network on a new MTR line.

DECEMBER

PCCW Global and Hang Seng University of Hong Kong sign a Memorandum of Understanding to develop smart city applications and technologies.

HKT secures 40MHz of spectrum in the 900MHz and 1800MHz bands in the government spectrum auction for deployment from 2021.

AWARDS

Award	Awardee	Scheme Organizer
5 Years Plus Caring Company Logo	HKT	The Hong Kong Council of Social Service
2018 13th Annual ContactCenterWorld Top Ranking Performers Awards 'Global Champion'		ContactCenterWorld
• Best Outbound Campaign – Gold Medal • Best Sales Campaign (Inbound) – Gold Medal • Best Use of Social Media in the Contact Center – Gold Medal	HKT	
• Best Contact Center Supervisor – Silver Medal • Best Project Manager – Silver Medal • Best Sales Manager – Silver Medal	HKT staff members	
50th Distinguished Salesperson Award Programme		The Hong Kong Management Association
• Distinguished Salesperson Award	1010, csl, HKT Consumer Group, HKT Customer Service Center and HKT shop staff members	
• Outstanding Young Salesperson Award	1010, csl, HKT Consumer Group, HKT Customer Service Center and Smart Living staff members	
Award of 10,000 Hours for Volunteer Service	Volunteer team of HKT and PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Bamboos Life Driver Selection 2017		Hong Kong Rehabilitation Power
• Employee Category	csl staff member	
Best of IT Awards 2017		*PCM*
• My Favorite Broadband Service	NETVIGATOR	
• My Favorite Mobile Service	csl	
• The Best Business Internet Service Provider	HKT	
CAHK STAR Awards 2018		Communications Association of Hong Kong
• Best Brand Campaign – Certificate of Merit	1010	
• Best Brand Campaign – Gold • Best Mobile Network Operator – Silver • Digital Marketing – Silver	csl	
• Best Fixed Network Operator – Gold	HKT	
• Innovative International Carrier – Gold	PCCW Global	

HKT wins the Best Fixed Network Operator – Gold award at the CAHK STAR Awards 2018.

Award	Awardee	Scheme Organizer
CAPITAL Best of the Best Choice for Executive 2018 • Telecommunications	 1O1O	*CAPITAL WEEKLY*
CAPITAL WEEKLY Service Awards 2018 • Loyalty Program • Telecom Service	 The Club 1O1O	*CAPITAL WEEKLY*
Carriers World Awards 2018 • Best Platform Initiative	 PCCW Global	Total Telecom
Charter on External Lighting • Platinum Award	 HKT	The Environment Bureau
Computerworld Hong Kong Awards 2018 • Corporate Mobile Services Provider • Mobile Device Management • Infrastructure-as-a-Service Provider • Local Data & Telecoms Services Provider	 1O1O HKT	*Computerworld Hong Kong*
2018 ContactCenterWorld Top Ranking Performers Awards 'Best in Asia Pacific' • Best in Customer Service – Medium (In-house) – Silver Medal • Best Outbound Campaign (In-house) – Gold Medal • Best Recruitment Campaign (In-house) – Gold Medal • Best Sales Campaign – Inbound (In-house) – Gold Medal • Best Use of Self-technology (In-house) – Runner-Up • Best Use of Social Media in the Contact Center – Small (In-house) – Gold Medal • Dream Team Award • Best Analyst (In-house) – Bronze Medal • Best Contact Center Operational Manager (In-house) – Runner-up • Best Contact Center Sales Professional (In-house) – Silver Medal • Best Contact Center Supervisor (In-house) – Gold Medal • Best Contact Center Trainer (In-house) – Bronze Medal • Best Contact Center Trainer (In-house) – Silver Medal • Best Customer Service Professional (In-house) – Bronze Medal • Best Quality Auditor (In-house) – Bronze Medal • Best Project Manager (In-house) – Gold Medal • Best Sales Manager (In-house) – Silver Medal	 HKT HKT staff members	ContactCenterWorld
2016/2017 Contractor Safety Performance Award • Maintenance Contract (Safety Classification 3)	 HKT Engineering	MTR Corporation Limited

Award	Awardee	Scheme Organizer
Cyber Security Professionals Awards 2017		The Hong Kong Police Force, the Government Computer Emergency Response Team Hong Kong and the Hong Kong Computer Emergency Response Team Coordination Centre
• Communications – Management – Bronze	HKT staff members	
• Communications – Management – Silver		
• Communications – Merit		
• Communications – Practitioner – Bronze		
• Communications – Practitioner – Silver		
• Online Services Providers – Merit		
e-brand Awards 2018		*e-Zone*
• The Best Business Wi-Fi Solutions	HKT	
• The Best Corporate Brand		
• The Best of Business Broadband Solutions		
• The Best of Corporate Telecommunication Service Provider		
• The Best of SME Cloud Solutions		
• The Best of Innovative Mobile Marketing	Club SIM	
• The Best of Mobile Network Service	csl	
• The Best of Social Media Marketing		
• The Best of Mobile Payment	Tap & Go	
• The Best of Residential Fiber Broadband Service	NETVIGATOR	
• The Best of Smart Living Brand	Smart Living	
Elite Awards 2017		*Ming Pao Weekly*
• IoT Home Consultancy Service	HKT Premier	
• Membership Rewards Loyalty Program	The Club	
• Mobile Network Service Operator	1O1O	
2017/18 Family-Friendly Employers Award Scheme		Family Council
• Awards for Breastfeeding Support 2017/18	csl	
• Meritorious Family-Friendly Employers 2017/18		
• Special Mention 2017/18		

Club SIM wins the Best of Innovative Mobile Marketing award at the e-brand Awards 2018.

HKT Premier wins the Elite Awards 2017 in the IoT Home Consultancy Service category.

Award	Awardee	Scheme Organizer
GCCM Awards 2018 • Best Volte Service Provider • Unified Communications Provider	PCCW Global	Carrier Community
Global Carrier Awards 2018 • Best Subsea Innovation • Best Voice Service Innovation – Emerging Market • Special Recognition – CSR	PCCW Global	*Capacity*
2017 Gold Award for Volunteer Service • Organization	Volunteer team of HKT and PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Greater China Contact Center Alliance – Customer Service Excellence Award 2018	HKT	Hong Kong Call Centre Association
Highest Service Hour Award 2017 • Private Organisations – Category 1 – Merit	Volunteer team of HKT and PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
HKACE Customer Service Excellence Award 2017 • Service Appreciation Award – Bronze	HKT Consumer Group – Customer Service Centre Inside Out	Hong Kong Association for Customer Service Excellence
• Team Award – Contact Centre Service – Gold	HKT Consumer Group – eCS Team	
• Team Award – Internal Support Service – Gold	HKT Consumer Group – Training & Quality Assurance Team	
• Individual Award – Contact Centre Service – Merit • Individual Award – Internal Support Service – Gold	csl staff members	
• Individual Award – Field & Special Service – Gold	HKT Engineering – Field Services staff member	
• Individual Award – Internal Support Service – Silver	HKT Consumer Group staff member	
HKIA Customer Service Excellence Programme 2018 • Corporate Excellence Award – Certificate of Appreciation • Individual Excellence Award– Certificate of Appreciation	1010 staff members	Airport Authority Hong Kong
HKIA Environmental Management Recognition Scheme • Good Class	1010 Airport Shop	Airport Authority Hong Kong and Hong Kong Productivity Council
HKMA/TVB Awards for Marketing Excellence 2018 • Individual Awards – Distinguished Marketing Leadership Award • Individual Awards – Marketer of the Year	csl staff member	The Hong Kong Management Association

Award	Awardee	Scheme Organizer
HKRMA Quality E-Shop Recognition Scheme – 2018 Top 10 Quality E-Shop Awards • Best Contract Fulfillment	csl Online Shop	Hong Kong Retail Management Association
HKRMA Mystery Shopper Program • 2018 Service Retailers of the Year – Category Award – Telecommunications Category • Service Category Leader – Telecommunications Category (Apr – Jun 2018) • Service Category Leader – Telecommunications Category (Jan – Mar 2018) • Service Category Leader – Telecommunications Category (Jul – Sep 2018) • Service Category Leader – Telecommunications Category (Oct – Dec 2017)	HKT Shop	Hong Kong Retail Management Association
2018 Hong Kong Awards for Industries • Customer Service Award • Customer Service Award – Certificate of Merit	PCCW – HKT – Customer Service Center HKT Shop	Trade and Industry Department and Hong Kong Retail Management Association
Hong Kong Call Centre Association Awards 2018 • Grand Award of the Year • KSA Recognition Award • Best Contact Centre Campaign – Silver • Best Contact Centre in Corporate Social Responsibility – Silver • Outbound Contact Centre of the Year (Below 20 Seats) – Bronze • Best Contact Centre in Quality Assurance – Silver	HKT HKT Consumer Group – Process Planning Team HKT Engineering – Diamond Commercial Contact Centre & Enterprise Contact Centre	Hong Kong Call Centre Association

HKT sweeps a total of 58 awards, including the Grand Award of the Year, at the Hong Kong Call Centre Association Awards 2018.

Award	Awardee	Scheme Organizer
• Best Contact Centre in Technology Application – Bronze	HKT Consumer Group – Live Chat	
• Best Contact Centre in Training and People Development – Bronze • Inbound Contact Centre of the Year (20-50 Seats) – Bronze • Inbound Contact Centre of the Year (Below 20 Seats) – Bronze • Outbound Contact Centre of the Year (Over 100 Seats) – Bronze	csl	
• Inbound Contact Centre of the Year (20-50 Seats) – Gold • Mystery Caller Assessment Award – Telecommunications – Gold	HKT Engineering – Enterprise Contact Centre	
• Inbound Contact Centre of the Year (50-100 Seats) – Bronze	HKT Consumer Group – NETVIGATOR Technical Support	
• Inbound Contact Centre of the Year (50-100 Seats) – Gold • Mystery Caller Assessment Award – Telecommunications – Gold	HKT Engineering – Diamond Commercial Contact Centre	
• Inbound Contact Centre of the Year (Below 20 Seats) – Gold	HKT Consumer Group – Sales Referral Team	
• Mystery Caller Assessment Award – Telecommunications – Best-in-class • Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – Now TV Call Centre Sales	
• Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold	csl – 1010 Corporate Account Service	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – Digital Sales	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – eye Dedicated Sales Hotline	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – eye Upgrade Hotline	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – Fixed Line Customer Service	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – Fixed Line Retention Hotline	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – Fixed Line Technical Support	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – NETVIGATOR Broadband Upgrade Hotline	

Award	Awardee	Scheme Organizer
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – NETVIGATOR Customer Service	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – NETVIGATOR Customer Service Live Chat	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – NETVIGATOR Technical Support Live Chat	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – Now TV Technical Support	
• Mystery Caller Assessment Award – Telecommunications – Gold	HKT Consumer Group – Smart Living Dedicated Hotline	
• Off-shore Contact Center of the Year – Bronze	HKT Consumer Group – Inbound Sales Team	
• Outbound Contact Centre of the Year (50 – 100 Seats) – Silver	HKT Consumer Group – Outbound Sales Team	
• Outbound Contact Centre of the Year (Over 100 Seats) – Silver	HKT Consumer Group – Retention Team	
• Contact Centre Quality Assurance Professional of the Year – Gold • Contact Centre Technical Support Professional of the Year – Silver • Contact Center Trainer of the Year – Bronze • Contact Center Trainer of the Year – Merit • Contact Center Trainer of the Year – Silver • Contact Center Workforce Management Professional of the Year – Gold • Contact Center Workforce Management Professional of the Year – Silver • Inbound Contact Centre Manager of the Year – Sliver • Inbound Contact Centre Representative of the Year – Gold • Inbound Contact Centre Team Leader of the Year – Gold • Inbound Contact Centre Team Leader of the Year – Merit • Inbound Contact Centre Team Leader of the Year – Merit • Outbound Contact Centre Manager of the Year – Gold • Outbound Contact Centre Representative of the Year – Bronze • Outbound Contact Centre Team Leader of the Year – Bronze	HKT Consumer Group staff members	

Award	Awardee	Scheme Organizer
• Contact Center Trainer of the Year – Gold • Inbound Contact Centre Manager of the Year – Bronze • Inbound Contact Centre Manager of the Year – Bronze • Inbound Contact Centre Team Leader of the Year – Silver • Outbound Contact Centre Representative of the Year – Merit • Outbound Contact Centre Team Leader of the Year – Gold • Outbound Contact Centre Team Leader of the Year – Merit	csl staff members	
Hong Kong Digital Brand Awards 2018 • Best Business Wi-Fi Solution • Best Cloud Solutions Services • Best ICT Service Provider • Best Fiber Broadband Service • Best Loyalty Program • Best Mobile Network Service • Best Smart Living Service	 HKT NETVIGATOR The Club csl Smart Living	The Chamber of Hong Kong Computer Industry and Metro Radio
Hong Kong Green Organisation	HKT	Environmental Campaign Committee, Environmental Protection Department and 9 organizations
Hong Kong Service Awards 2018 • Internet Service Providers • Long Distance Call • Mobile Service • Smart Living • The Best Loyalty Program	 NETVIGATOR IDD 0060 csl Smart Living The Club	*East Week*

Smart Living wins the Hong Kong Service Awards 2018 in the Smart Living category.

Award	Awardee	Scheme Organizer
Hong Kong Smart City Awards 2018		*ET Net* and Cyberport
• Outstanding Mobile Payment App	Tap & Go	
• Outstanding One-stop Electric Vehicle Charging Solutions	Smart Charge	
• Outstanding Smart Living Solutions	Smart Living	
2017 – 2018 Hong Kong Smiling Enterprise Award		Mystery Shopper Service Association
• Smiling Employer Outstanding Award	1010	
• Smiling Enterprise Outstanding Award – Telecommunications – Mobile		
• Smiling Employer Outstanding Award	csl	
• Smiling Enterprise Merit Award – Mobile		
• Smiling Enterprise Award – Telecommunications	HKT	
• Smiling Enterprise Outstanding Award – Service Center	HKT Customer Service Center	
• Smiling Staff Award • Smiling Supervisor Award	1010, csl, HKT Customer Service Center and HKT shop staff members	
• Smiling Staff Outstanding Award	1010 staff member	
• Smiling Staff Outstanding Award • Smiling Supervisor Outstanding Award	HKT Customer Service Center staff members	
• Smiling Supervisor Outstanding Award	csl staff member	
Huawei Partner Summit Awards 2017		Huawei
• Best Commercial Partner	HKT	
iChoice Awards 2018		discuss.com
• Innovative Mobile Service	Club SIM	
• Supreme Marketing Award (Digital)	csl	
• The Most Favourite LTE Service Provider		
• The Most Favourite Mobile Network Service Provider		
• The Most Favourite Membership Program	The Club	

Tap & Go wins the Outstanding Mobile Payment App award at the Hong Kong Smart City Awards 2018.

Smart Charge wins the Outstanding One-stop Electric Vehicle Charging Solutions award at the Hong Kong Smart City Awards 2018.

Award	Awardee	Scheme Organizer
2017 International Customer Relationship Excellence Awards		Asia Pacific Customer Service Consortium
• Customer Service Analyst of the Year 2017 (Mobile) • Customer Service Manager of the Year 2017 (Mobile – Contact Center) • Customer Service Manager of the Year 2017 (Mobile – T&D Center) • Customer Service Professional of the Year 2017 (Mobile – Contact Center) • Customer Service Professional of the Year 2017 (Mobile – Contact Center) – Merit • Customer Service Professional of the Year 2017 (Mobile – T&D Center) • Customer Service Team Leader of the Year 2017 (Contact Center) – Merit	csl staff members	
• Customer Service Manager of the Year 2017 (IoT Smart Home – Contact Center) • Customer Service Manager of the Year 2017 (IoT Smart Home – Service Center) • Customer Service Manager of the Year 2017 (IoT Smart Home – T&D Center) • Customer Service Professional of the Year 2017 (IoT Smart Home – Contact Center) • Customer Service Professional of the Year 2017 (IoT Smart Home – Service Center) • Customer Service Professional of the Year 2017 (IoT Smart Home – T&D Center) • Customer Service Team Leader of the Year 2017 (IoT Smart Home – Contact Center) • Customer Service Team Leader of the Year 2017 (IoT Smart Home – Service Center) • Customer Service Team Leader of the Year 2017 (IoT Smart Home – T&D Center)	HKT Customer Service Center staff members	

HKT and csl win 16 awards at the 2017 International Customer Relationship Excellence Awards.

Award	Awardee	Scheme Organizer
Market Leadership Award 2017/2018		Hong Kong Institute of Marketing
• Enterprise Market Leadership Award – Market Leadership in Mobile Telecommunications 2017/2018	1O1O	
• Enterprise Market Leadership Award – Market Leadership in Telecommunications 2017/2018	HKT	
• Triple Crown		
2018 MEF Awards		MEF
• Wholesale Service Provider of the Year – Global	PCCW Global	
• Industry Executive of the Year	CEO, PCCW Global	
Metro Awards For Brand Excellence 2017		*Metro Daily* and *Metro Prosperity*
• Best Home Broadband Service Provider	NETVIGATOR	
• Best Lifestyle Product	Smart Living	
• Best Mobile Service Provider	1O1O	
• Best Smart Living Communications Service	eye	
Metro Awards For Service Excellence 2018		*Metro Daily* and *Metro Prosperity*
• Excellence in Business Broadband Network Service Supplier	HKT	
• Excellence in Loyalty Program	The Club	
• Excellence in Mobile Network Communication Service	csl	
2017 MTR Malls Quality Service Scheme		MTR Corporation Limited
• Household, Electrical Appliances & Telecommunications Category – Top Award	Maritime Square HKT Shop	
Power Smart Energy Saving Contest 2017-18		Friends of the Earth (HK)
• Biggest Unit Saver Award (Organization) – First Runner-up	HKT Engineering	
Safety Performance Award		MTR Corporation Limited
• Champion	HKT Engineering – Integrated Projects & CPE Services	

At the Market Leadership Award 2017/2018, HKT wins the Triple Crown award and the Enterprise Market Leadership Award - Market Leadership in Telecommunications 2017/2018.

At the 2018 MEF Awards, PCCW Global wins the Wholesale Service Provider of the Year – Global award.

Award	Awardee	Scheme Organizer
2018 Service & Courtesy Award		Hong Kong Retail Management Association
• Company Award – Retail Excellence Award – Best Presentation Award	1O1O	
• Company Award – Retail Excellence Award – Certificate of Merit	csl	
• Company Award – The Potential Brand Award – Silver Award	NETVIGATOR	
• Company Award – Top 10 Outstanding Service Retail Brands	Smart Living	
• Excellent Service Star	csl, HKT Customer Service Center and HKT shop staff members	
• Individual Award – Quality Living – Junior Frontline Level – Gold Award	HKT Customer Service Center staff members	
• Individual Award – Quality Living – Supervisory Level – Gold Award		
• Individual Award – New Participating Brands – Junior Frontline Level – Gold Award	HKT shop staff members	
• Individual Award – New Participating Brands – Supervisory Level – Gold Award		
• Individual Award – New Participating Brands – Supervisory Level – Silver Award		
• Individual Award – Telecommunications – Junior Frontline Level – Gold Award		
• Individual Award – Telecommunications – Junior Frontline Level – Outstanding Performance Award		
• Individual Award – Telecommunications – Supervisory Level – Silver Award		
• Individual Award – Telecommunications – Junior Frontline Level – Outstanding Performance Award	1O1O staff member	

At the Metro Awards for Brand Excellence 2017, NETVIGATOR and eye win the Best Home Broadband Service Provider award and the Best Smart Living Communications Service award respectively.

HKT scoops a total of 19 awards at the 2018 Service & Courtesy Award.

Award	Awardee	Scheme Organizer
Sing Tao Services Awards 2017		*Sing Tao Daily*
• Local Telecoms Service	csl	
SMBWorld Awards 2018		*SMBWorld*
• Best Business Internet Broadband • Best SMB Cloud Storage • Best SMB Partner (Retail Solutions) • Best Unified Communications Services Provider • Tech Company of the Year (SMB Market)	HKT	
• Best Corporate Mobile Services Provider	1O1O	
• Best SMB Partner (e-Payment Solutions)	HKT Merchant Services	
SME Partner Awards of Excellence 2018		*Hong Kong Economic Journal Finance*
• Distinguished Commercial Broadband Service • Distinguished Information and Communications Technologies	HKT	
• Distinguished Corporate Mobile Communications Service	1O1O	
Social Capital Builder Awards 2018-2020		Community Investment and Inclusion Fund of the Labour and Welfare Bureau
• Social Capital Builder Logo Award	HKT	
The 9th Hong Kong Outstanding Corporate Citizenship		The Hong Kong Productivity Council
• Volunteer Team – Bronze Award	Volunteer team of HKT and PCCW	
The 18th CAPITAL Outstanding Enterprise Awards		*CAPITAL*
• Outstanding Fixed Line Service Provider	eye	
The Best of the Greater Bay Area Awards 2018		*Metro Daily* and *Metro Prosperity*
• The Best Mobile Network Communications Service of the Greater Bay Area	csl	
The Best SME Partners 2018		*Economic Digest*
• ICT Service Provider • Internet Service Provider	HKT	
• Mobile Communications Service Provider	1O1O	
The Outstanding Brand Awards 2018		*Economic Digest*
• Best Corporate Mobile Services Provider	1O1O	

Award	Awardee	Scheme Organizer
Tiptop Service Award 2017 – 2018		Tiptop Consultants Ltd.
• Persistently Outstanding Service Company of the Year	HKT Customer Service Center	
• Persistently Outstanding Service Outlet of the Year – Service Center	HKT Customer Service Center – Tsim Sha Tsui	
Top Service Awards 2018		*Next Magazine*
• Internet Service Providers	NETVIGATOR	
• Loyalty Program	The Club	
• Mobile Network Service Operators	csl	
• Best Staff Award – Gold	HKT shop staff member	
Web Accessibility Recognition Scheme 18/19		Hong Kong Internet Registration Corporation Limited
• Silver Award (Website Stream)	HKT	
World Communication Awards 2018		Total Telecom
• Digital Lifestyle Award	PCCW Global	
• Digital Transformation Award	HKT	

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Executive Chairman

Mr Li, aged 52, was appointed the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Executive Committee and a member of the Nomination Committee of the HKT Board. Mr Li has also been an Executive Director and the Chairman of PCCW Limited (PCCW) since August 1999, the Chairman of PCCW's Executive Committee and a member of the Nomination Committee of the board of directors of PCCW. He is also the Chairman and Chief Executive of the Pacific Century Group, an Executive Director and the Chairman of Pacific Century Premium Developments Limited (PCPD), the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, the Chairman and an Executive Director of Singapore-based Pacific Century Regional Developments Limited (PCRD), and the Chairman of PCRD's Executive Committee.

Mr Li is 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.

HUI Hon Hing, Susanna

Group Managing Director

Ms Hui, aged 54, is the Group Managing Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, since September 2018. She has been an Executive Director of HKT and the Trustee-Manager since November 2011. She is a member of HKT's Executive Committee and holds directorships in various Group companies. She was the Group Chief Financial Officer of HKT from November 2011 to August 2018 primarily responsible for overseeing the financial matters of the Group. Ms Hui is also the Group Chief Financial Officer and Executive Director of PCCW Limited (PCCW), a member of PCCW's Executive Committee, 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 20 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.

NON-EXECUTIVE DIRECTORS

Peter Anthony ALLEN

Non-Executive Director

Mr Allen, aged 63, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is a member of HKT's Audit Committee and the Trustee-Manager's Audit Committee. He is an Executive Director and the Group Managing Director of Pacific Century Regional Developments Limited, an Executive Director and the Chief Financial Officer of the Pacific Century Group, a Director of certain FWD group companies and Senior Advisor to PCCW Limited (PCCW). He is also a Director of certain other companies controlled by Mr Li Tzar Kai, Richard, the Executive Chairman of HKT and the Trustee-Manager. Mr Allen was an Executive Director of PCCW from August 1999 to November 2011.

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

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

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

CHUNG Cho Yee, Mico

Non-Executive Director

Mr Chung, aged 58, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. Mr Chung was a Non-Executive Director of PCCW Limited (PCCW) from May 2010 to November 2011. He was an Executive Director of PCCW from November 1996 who was responsible for merger and acquisition activities and was re-designated to a Non-Executive Director of PCCW in May 2010. He joined the Pacific Century Group in March 1999.

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

Mr Chung is currently the Chairman and an Executive Director of CSI Properties Limited which he joined in 2004. He is also an Independent Non-Executive Director of HKC (Holdings) Limited.

LI Fushen

Non-Executive Director

Mr Li, aged 56, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is a member of HKT's Remuneration Committee, Nomination Committee and Executive Committee. Mr Li became a Non-Executive Director of PCCW Limited (PCCW) in July 2007 and the Deputy Chairman of the board of directors of PCCW in September 2018. He is a member of PCCW's Executive Committee.

Mr Li is an Executive Director of China Unicom (Hong Kong) Limited (Unicom HK). He is also a Director of China United Network Communications Group Company Limited (Unicom), China United Network Communications Limited (Unicom A-Share) and China United Network Communications Corporation Limited.

He served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company, General Manager of the Finance Department and Chief Accountant of China Network Communications Group Corporation, Chief Financial Officer, Executive Director and Joint Company Secretary of China Netcom Group Corporation (Hong Kong) Limited, Vice President and Chief Accountant of Unicom, Senior Vice President of Unicom A-Share, and Senior Vice President and Chief Financial Officer of Unicom HK.

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.

ZHU Kebing

Non-Executive Director

Mr Zhu, aged 44, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in September 2018. He is a member of HKT's Regulatory Compliance Committee. Mr Zhu is also a Non-Executive Director of PCCW Limited (PCCW) and a member of the Nomination Committee of the board of directors of PCCW.

Mr Zhu is an Executive Director and Chief Financial Officer of China Unicom (Hong Kong) Limited, the Chief Accountant of China United Network Communications Group Company Limited, the Chief Financial Officer and Board Secretary of China United Network Communications Limited, and a Director and the Chief Financial Officer of China United Network Communications Corporation Limited.

Mr Zhu previously worked as Deputy Head of the Financial Department, General Manager, Budgeting Controller and Asset Management Controller of the Operation and Financial Department of Baosteel Group Co., Ltd., Chief Financial Officer, Board Secretary and Supervisor of Baoshan Iron and Steel Co., Ltd., General Manager of the Industry Finance Development Center of China Baowu Steel Group Corporation Limited, Director of Shanghai Baosight Software Co., Ltd., Non-Executive director of China Pacific Insurance (Group) Co., Ltd., Director of Oriental Steel & Iron E-Commerce Co., Ltd., General Manager of Hwabao Investment Co., Ltd., Chairman of Hwabao (Shanghai) Equity Investment Co., Ltd., Chairman of Hwabao Trust Co., Ltd., Director of Sailing Capital International Investment Fund (Shanghai) Co., Ltd., Director of Sailing Capital Management Co., Ltd., Director of Siyuanhe Equity Investment Management Co., Ltd. and Vice President of PE Association of Shanghai etc. He also serves as Chairman of Unicom Innovation Investment Co., Ltd., Chairman of Unicom Capital Investment Holding Co., Ltd., Chairman of Baosteel Group Finance Co., Ltd. and Director of China Internet Investment Fund.

Mr Zhu is a Senior Accountant graduated from Northeastern University in 1997 and he received a Professional Accountancy master's degree from Chinese University of Hong Kong in 2011. Mr Zhu has extensive experience in corporate finance and investment management.

Srinivas Bangalore GANGAIAH (aka BG Srinivas)
Non-Executive Director
Mr Srinivas, aged 58, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in August 2014. He is an Executive Director and Group Managing Director of PCCW Limited (PCCW) since July 2014. He is also a member of PCCW's Executive Committee. He is also an Alternate Director of certain FWD group companies controlled by Mr Li Tzar Kai, Richard, the Executive Chairman of HKT and the Trustee-Manager.

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor CHANG Hsin Kang, FREng, GBS, JP
Independent Non-Executive Director
Professor Chang, aged 78, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Regulatory Compliance Committee, a member of HKT's Audit Committee, Remuneration Committee and Nomination Committee, and a member of the Trustee-Manager's Audit Committee. Professor Chang was an Independent Non-Executive Director of PCCW Limited from October 2000 to November 2011.

Professor Chang became an Honorary Professor of Beijing Foreign Studies University in 2005, an Honorary Professor of Peking University in 2006, an Honorary Professor of Tsinghua University in September 2007, and the Honorary President of China Institute of Our Hong Kong Foundation in 2017. He was the President and University Professor of City University of Hong Kong from 1996 to 2007. Prior to that, he was the Dean of the School of Engineering at the University of Pittsburgh in the United States from 1994 to 1996, Founding Dean of the School of Engineering at Hong Kong University of Science and Technology from 1990 to 1994 and the Chairperson of the Department of Biomedical Engineering at the University of Southern California in the United States from 1985 to 1990.

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

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

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

Sunil VARMA

Independent Non-Executive Director

Mr Varma, aged 75, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is also the Chairman of both HKT's Audit Committee and the Trustee-Manager's Audit Committee and a member of HKT's Nomination Committee, Remuneration Committee and Regulatory Compliance Committee.

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

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

Mr Varma is also a Director and the Chairman of Audit Committee of various companies in India including International Asset Reconstruction Company Pvt. Ltd. and Dr. Lal PathLabs Limited.

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

Aman MEHTA

Independent Non-Executive Director

Mr Mehta, aged 72, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in May 2014. He is the Chairman of HKT's Nomination Committee. Mr Mehta has been an Independent Non-Executive Director of PCCW Limited (PCCW) since February 2004. He is also the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the board of directors of PCCW.

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

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

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

Following his retirement in December 2003, Mr Mehta took up residence in New Delhi. He is an Independent Director on the board of several public companies and institutions in India and internationally. He is an Independent Non-Executive Director of Tata Consultancy Services Limited, Godrej Consumer Products Limited, Wockhardt Limited, Tata Steel Limited and Vedanta Limited in Mumbai, India; and Max Financial Services 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 57, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in May 2015. She is the Chairwoman of HKT's Remuneration Committee. Ms Wong has been an Independent Non-Executive Director of PCCW Limited (PCCW) since March 2012 and is the Chairwoman of the Regulatory Compliance Committee and a member of the Nomination Committee and the Remuneration Committee of the board of directors of PCCW. She is also an Independent Non-Executive Director of Pacific Century Regional Developments Limited.

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

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

COMBINED CORPORATE GOVERNANCE REPORT

The board of directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) (the "Trustee-Manager Board") and the board of directors of HKT Limited (the "Company") (the "Company Board") (together, the "Boards" or each, the "Board") present the corporate governance report of the HKT Trust and the Company on a combined basis for the year ended December 31, 2018.

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

The Boards have adopted a Corporate Responsibility Policy and a Corporate Social Responsibility Policy that apply throughout HKT Trust, HKT Limited and its subsidiaries (together, the "Group") to all employees, including directors and officers, of the Trustee-Manager and of the Company and its subsidiaries (together, the "HKT Limited Group").

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

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

CORPORATE STRATEGY

The Company, in conjunction with its listed parent PCCW Limited ("PCCW"), offers a unique quadruple-play experience in Hong Kong delivering media content on its fixed-line, broadband Internet access and mobile platforms. The Company's strategy for generating and preserving unitholder value is to invest prudently in its technology and service platforms to ensure that its fixed-line business remains the market leader, its broadband offering delivers increasingly fast connectivity and its mobile network coverage and speed continuously improve – and overall to invest in our people to continuously improve the quality of service that the Company provides to its customers. The Company generates and preserves value by investing in these businesses and pursuing growth opportunities. Its strategy is to continue to be the market leader via innovation and broadening its service offerings in the telecommunications and ancillary businesses.

CORPORATE GOVERNANCE CODE

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

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

The HKT Trust and the Company have adopted the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as the corporate governance code of the HKT Trust and the Company. The HKT Trust and the Company have applied the principles, and complied with all relevant code provisions of the CG Code in each case as set out in Appendix 14 to the Listing Rules during the year ended December 31, 2018, save and except for the code provisions set out below. The requirement to establish a separate Remuneration Committee with written terms of reference for the Trustee-Manager under the code provision B.1.2 of the CG Code is not relevant to the Trustee-Manager as its directors are not entitled to any remuneration under the Trust Deed, and therefore has not been complied with. In addition, given the unique circumstances of the HKT Trust i.e., the fact that the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals, the establishment of a separate Nomination Committee for the Trustee-Manager as required by code provision A.5.1 of the CG Code is not relevant to the Trustee-Manager, and therefore has not been complied with.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The HKT Trust and the Company have adopted their own code of conduct regarding securities transactions, namely the HKT Trust and HKT Limited Code of Conduct for Securities Transactions (the "HKT Code"), which applies to all directors of the Trustee-Manager and the Company and their employees (where applicable) on terms no less exacting than the required standard indicated by the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry of all directors of the Trustee-Manager and the Company, confirmations have been received of compliance with the required standard set out in the Model Code and the HKT Code during the year.

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

BOARDS OF DIRECTORS

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

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

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

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

BOARDS OF DIRECTORS *(CONTINUED)*

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

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

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

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

The Executive Chairman of the Trustee-Manager and the Company is Li Tzar Kai, Richard. During the year, Alexander Anthony Arena retired as Group Managing Director and Executive Director of the Boards with effect from the end of August 31, 2018 and Hui Hon Hing, Susanna was appointed as Group Managing Director with effect from September 1, 2018.

The role of the Executive Chairman is separate from that of the Group Managing Director. The Executive Chairman is responsible for ensuring the Boards function effectively, providing leadership for the Boards in setting objectives and strategies, and ensuring good corporate governance practices are enforced. The Group Managing Director is responsible for leading the management of the Trustee-Manager and the Company in conducting their business affairs in accordance with the Group's objectives, and implementing the Group's strategies and policies. The Boards' compositions are set out in the Combined Report of the Directors of this annual report.

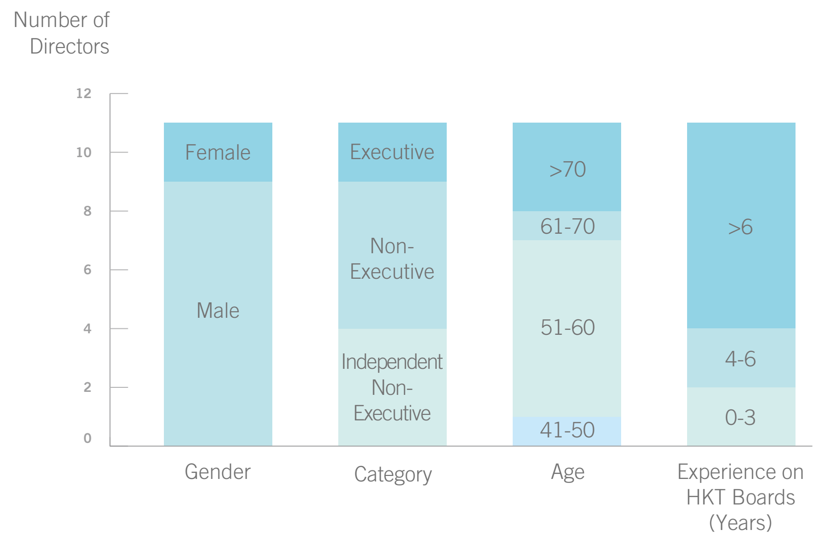
All directors of the Trustee-Manager and the Company have full and timely access to all relevant information, including monthly updates from the management, regular reports from various Boards committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors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

The directors of the Trustee-Manager and the Company acknowledge their responsibility for preparing the financial statements of the Group, the HKT Limited Group and the Trustee-Manager, as appropriate, for each financial year, which give a true and fair view of the financial position of the Group and of the HKT Limited Group and of the Trustee-Manager, and of the financial performance and cash flows of the Group and of the HKT Limited Group and of the Trustee-Manager, for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2018, the directors of the Trustee-Manager and the Company have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; stated the reasons for any significant departure from applicable accounting standards in Hong Kong; and have prepared the financial statements on a going-concern basis. The statements of the external auditor relating to its reporting responsibilities on the financial statements of the HKT Trust and HKT Limited, and the Trustee-Manager are respectively set out in the Independent Auditor's Reports of this annual report.

As at the date of this report, each of the Boards is comprised of 11 directors including two executive directors, five non-executive directors and four independent non-executive directors. At least one-third of the Boards are independent non-executive directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. Biographies of all members of the Boards are set out on pages 28 to 32 of this annual report and are available on the Company's website (www.hkt.com). The relationships (including financial, business, family or other material or relevant relationships), if any, among members of the Boards have also been disclosed in the Combined Report of the Directors of this annual report.

BOARDS OF DIRECTORS *(CONTINUED)*

Board Composition

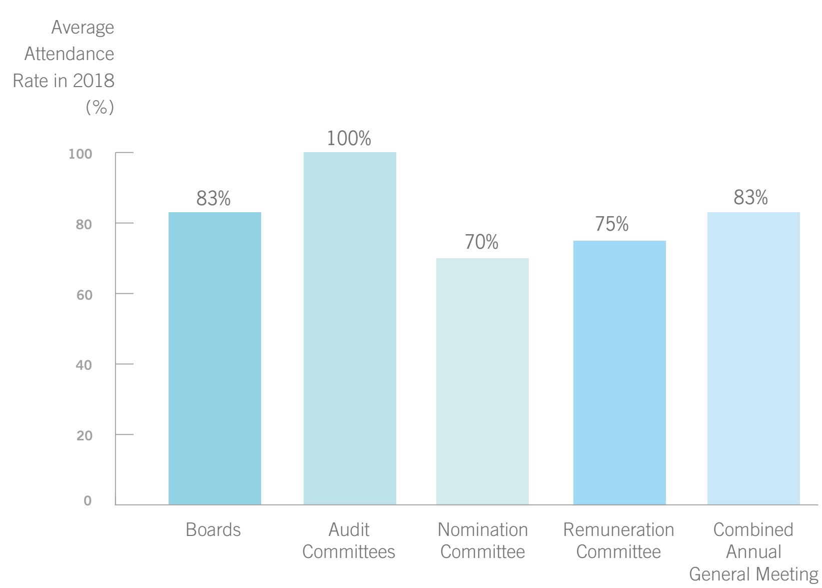


The Trustee-Manager and the Company have arranged appropriate directors and officers liability insurance cover for their directors and officers.

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

The Boards each held four meetings in 2018. The combined annual general meeting of unitholders of the HKT Trust and shareholders of the Company (the "Combined Annual General Meeting") was held on May 10, 2018 with the attendance of the external auditor to answer questions.

The following charts show the average meeting attendance rate in 2018 and the attendance of individual directors at the Boards and their respective committee meetings, and the Combined Annual General Meeting held in 2018:



BOARDS OF DIRECTORS *(CONTINUED)*

Name	Company: Board	Company: Audit Committee *(Note 2)*	Company: Nomination Committee *(Note 2)*	Company: Remuneration Committee *(Note 2)*	Trustee-Manager: Board	Trustee-Manager: Audit Committee *(Note 3)*	Combined Annual General Meeting
	Meetings attended/eligible to attend in 2018 *(Note 1)*						
Executive Directors							
Li Tzar Kai, Richard	4/4	N/A	1/2	N/A	4/4	N/A	1/1
Alexander Anthony Arena *(Note 4)*	3/3	N/A	N/A	N/A	3/3	N/A	1/1
Hui Hon Hing, Susanna *(Note 5)*	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Non-Executive Directors							
Peter Anthony Allen	4/4	3/3	N/A	N/A	4/4	3/3	1/1
Chung Cho Yee, Mico	3/4	N/A	N/A	N/A	3/4	N/A	1/1
Lu Yimin *(Note 6)*	0/3	N/A	0/2	0/3	0/3	N/A	0/1
Li Fushen *(Note 7)*	1/4	N/A	N/A	N/A	1/4	N/A	0/1
Zhu Kebing *(Note 8)*	0/1	N/A	N/A	N/A	0/1	N/A	N/A
BG Srinivas	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Independent Non-Executive Directors							
Professor Chang Hsin Kang	4/4	3/3	2/2	3/3	4/4	3/3	1/1
Sunil Varma	4/4	3/3	2/2	3/3	4/4	3/3	1/1
Aman Mehta	4/4	N/A	2/2	N/A	4/4	N/A	1/1
Frances Waikwun Wong	4/4	N/A	N/A	3/3	4/4	N/A	1/1

Notes:

1. Directors may attend meetings in person or by means of telephone or other audio communications equipment in accordance with the Company's Amended and Restated Articles of Association (the "Company Articles") and the Trustee-Manager's Articles of Association (the "Trustee-Manager Articles").

2. For the composition of and the number of meetings held in 2018 by the Audit Committee, Nomination Committee and Remuneration Committee of the Company, please refer to the section headed "**Committees of the Company Board**" in this Combined Corporate Governance Report.

3. For the composition of and the number of meetings held in 2018 by the Audit Committee of the Trustee-Manager, please refer to the section headed "**Committee of the Trustee-Manager Board**" in this Combined Corporate Governance Report.

4. Retired as the Group Managing Director and Executive Director of the Company and the Trustee-Manager with effect from the end of August 31, 2018.

5. Appointed as the Group Managing Director of the Company and the Trustee-Manager with effect from September 1, 2018.

6. Resigned as a Non-Executive Director of the Company and the Trustee-Manager, and a member of the Company's Remuneration Committee and Nomination Committee with effect from September 18, 2018.

7. Appointed as a member of the Company's Remuneration Committee and Nomination Committee, and stepped down as a member of the Company's Regulatory Compliance Committee with effect from September 18, 2018.

8. Appointed as a Non-Executive Director of the Company and the Trustee-Manager, and a member of the Company's Regulatory Compliance Committee with effect from September 18, 2018.

BOARDS OF DIRECTORS *(CONTINUED)*

The Company and the Trustee-Manager together have received from each of their independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and consider that all four independent non-executive directors as at the date of this report, namely, Professor Chang Hsin Kang, Sunil Varma, Aman Mehta and Frances Waikwun Wong remain independent having regard to the independence criteria as set out in Rule 3.13 of the Listing Rules. Please also refer to the details disclosed in the section headed "**Independent Non-Executive Directors**" in the Combined Report of the Directors of this annual report.

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

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

The Boards have a structured process to evaluate their own performance and directors' contribution on an annual basis including a self-evaluation questionnaire which is completed by all directors. The objectives of the evaluation are to assess whether the Boards and the committees, as well as the directors have adequately and effectively performed their roles and fulfilled their responsibilities; have devoted sufficient time commitment to the Company's and Trustee-Manager's affairs; and to recommend areas for improvement. The evaluation process has confirmed that the Boards and committees continue to operate effectively and that the performance of the directors and the time commitment in discharging their duties as directors of the Company and the Trustee-Manager for the year ended December 31, 2018 were generally satisfactory.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

As part of an ongoing process of director's continuous professional development ("CPD") training, the directors of the Company and the Trustee-Manager are regularly briefed on legal and regulatory requirements relevant to their duties through their participation in the training seminars organized by the company secretary, and the operations, organization and governance policies of the Group through regular meetings with management. In addition to receiving regular updates on the Group's business affairs, directors are also provided with reading materials from time to time to help develop and refresh their knowledge and skills. The company secretary organizes seminars presented by qualified professionals on relevant topics with emphasis on directors' duties and responsibilities which count towards their CPD training.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT *(CONTINUED)*

According to the directors' training records provided to the Company and the Trustee-Manager for the year ended December 31, 2018, the CPD training undertaken by all directors during the year is summarized as below:

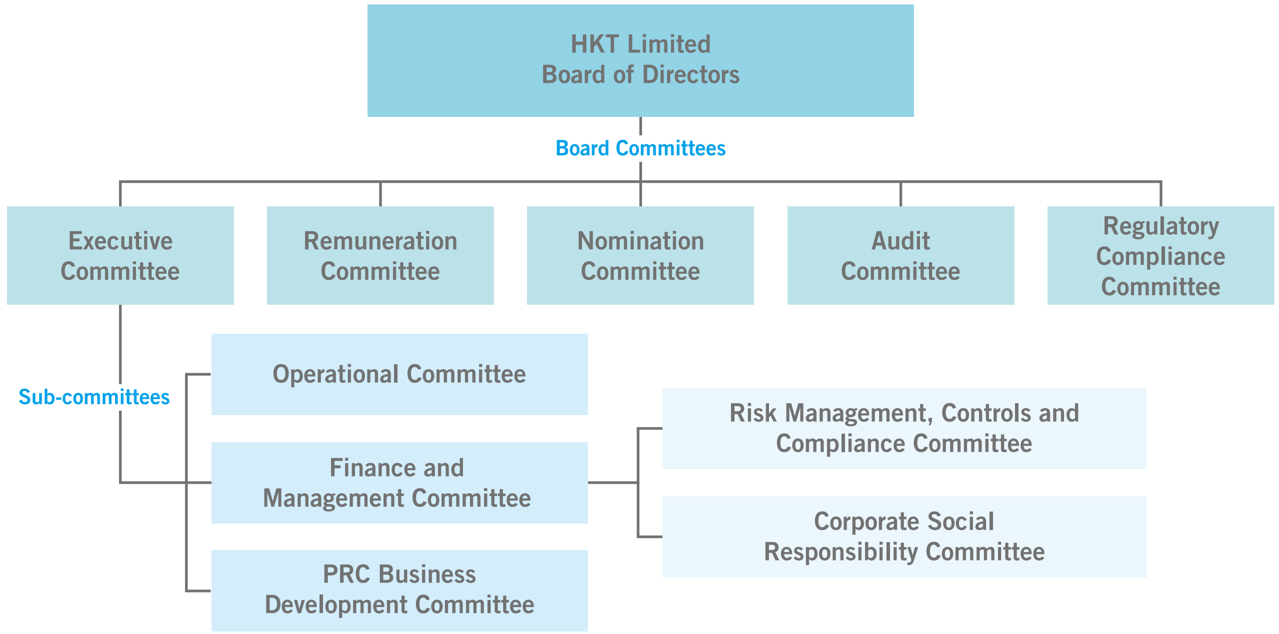
Name	Type(s) of CPD training *(Note(s))*
Current Directors	
Li Tzar Kai, Richard	(a), (b)
Hui Hon Hing, Susanna	(a), (b)
Peter Anthony Allen	(a), (b)
Chung Cho Yee, Mico	(b)
Li Fushen	(a), (b)
Zhu Kebing	(a), (b)
BG Srinivas	(a), (b)
Professor Chang Hsin Kang	(a), (b)
Sunil Varma	(a), (b)
Aman Mehta	(a), (b)
Frances Waikwun Wong	(a), (b)
Former Directors	
Alexander Anthony Arena	(a), (b)
Lu Yimin	(b)

Notes:

(a) participated in seminars/forums/conferences (including giving speeches)

(b) read seminar materials/journals/articles/business or industry updates

COMMITTEES OF THE COMPANY BOARD



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

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Executive Committee and Sub-committees

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

The Executive Committee is comprised of three members, including two executive directors and one non-executive director.

As at the date of this annual report, the members of the Executive Committee are:
Li Tzar Kai, Richard *(Chairman)*
Hui Hon Hing, Susanna
Li Fushen

During the year, the following changes were made to the composition of the Executive Committee:

(1) Alexander Anthony Arena retired as a member with effect from the end of August 31, 2018;

(2) Lu Yimin resigned as a member with effect from September 18, 2018; and

(3) Li Fushen was appointed as a member with effect from September 18, 2018.

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

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

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

The *Risk Management, Controls and Compliance Committee*, which reports to the Finance and Management Committee, was established with effect from the Listing Date. It is comprised of senior members of the Company's Group Finance, Group Legal Office and Corporate Secretariat, Group Communications, Group Internal Audit, and Risk Management and Compliance departments. The committee reviews procedures for the preparation of the annual and interim reports of HKT Trust and HKT Limited and the Group's policies from time to time to ensure compliance with the various rules and obligations imposed under the Listing Rules, and assists directors in the review of the effectiveness of the risk management and internal control systems of the Group on an ongoing basis.

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

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

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Remuneration Committee

The Company Board established the Remuneration Committee with effect from the Listing Date. The primary responsibility of the Remuneration Committee is to assist the Board in achieving its objectives of attracting, retaining and motivating high-caliber directors and senior management of the Company and other members of the HKT Limited Group who will underpin the success of the Company and enhance the value of the Company for the benefit of the holders of Share Stapled Units.

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

As at the date of this annual report, the members of the Remuneration Committee are:
Frances Waikwun Wong *(Chairperson)*
Professor Chang Hsin Kang
Sunil Varma
Li Fushen

During the year, the following changes were made to the composition of the Remuneration Committee:

(1) Lu Yimin resigned as a member with effect from September 18, 2018; and

(2) Li Fushen was appointed as a member with effect from September 18, 2018.

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

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

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

The Remuneration Committee met three times in 2018. The attendance of individual directors at the committee meetings is set out on page 37 of this annual report.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Remuneration Committee *(continued)*

The work performed by the Remuneration Committee during 2018 included:

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

(ii) review and approval of the emoluments of executive directors and senior management, including 2017 performance bonus;

(iii) review and approval of the 2018 business key performance indicators and performance bonus scheme for executive directors and senior management; and

(iv) review of the scheme rules of the Company's share stapled units award schemes, with a recommendation to the Company Board for approval.

Details of emoluments of each director and senior executives are set out in note 13 to the consolidated financial statements of the HKT Trust and the Company.

Nomination Committee

The Company Board established the Nomination Committee with effect from the Listing Date. The primary objective of the Nomination Committee is to assist the Company Board in ensuring a fair and transparent procedure for the appointment and re-appointment of directors to the Company Board, and maintaining a balance of skills, knowledge, experience and diversity of perspectives on the Company Board which are appropriate to the requirements of the Company's business. The duties of the Nomination Committee are set out in its terms of reference which are posted on the websites of the Company and HKEX.

In 2013, the Boards jointly adopted a board diversity policy (the "Board Diversity Policy") to help enhance the effectiveness of the Boards and the corporate governance standard through promoting and achieving diversity on the Boards. The Group recognizes the importance of having a diverse team of Board members, which is an essential element in maintaining an effective Board. The Nomination Committee is delegated with the authority to review and assess the diversity of the Company Board and monitor the implementation of the Board Diversity Policy as appropriate.

On November 14, 2018, the Boards reviewed and approved, amongst other things, the adoption of a nomination policy (the "Nomination Policy"), updates to the Board Diversity Policy and the terms of reference of the Nomination Committee in each case to reflect the new corporate governance requirements effective from January 1, 2019 under the Listing Rules. The Nomination Policy and the updated version of the Board Diversity Policy are available on the Company's website.

The Nomination Policy sets out the procedures and criteria to be used by the Nomination Committee for the selection, appointment and re-appointment of directors.

In assessing the suitability of a candidate, the Nomination Committee will give consideration to the Nomination Policy and the Board Diversity Policy. Candidates will be selected based on merit against objective criteria and with due regard to the benefits of diversity on the Company Board and other factors which are relevant to the Company. The Nomination Committee will consider, amongst other things, the accomplishment, expertise, experience and diversity of perspective that the candidate can bring to the Boards, and the candidate's commitment in respect of available time and relevant interests. The Nomination Committee will make recommendations to the Company Board on the selection of candidate(s) nominated for directorships. In the case of the appointment and re-appointment of independent non-executive directors, the Nomination Committee will assess the independence of the appointees having regard to the criteria set out in the Listing Rules and make recommendations to the Company Board with respect to their re-election by shareholders at general meetings.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Nomination Committee *(continued)*

The Nomination Committee is comprised of five members, including one executive director, one non-executive director and three independent non-executive directors. It is chaired by an independent non-executive director.

As at the date of this annual report, the members of the Nomination Committee are:
Aman Mehta *(Chairman)*
Professor Chang Hsin Kang
Li Tzar Kai, Richard
Li Fushen
Sunil Varma

During the year, the following changes were made to the composition of the Nomination Committee:

(1) Lu Yimin resigned as a member with effect from September 18, 2018; and

(2) Li Fushen was appointed as a member with effect from September 18, 2018.

On February 22, 2019, the Nomination Committee, having reviewed the Company Board's structure, size and composition, nominated Hui Hon Hing, Susanna, Peter Anthony Allen, Li Fushen, Zhu Kebing and Professor Chang Hsin Kang to the Company Board for it to consider and as appropriate, recommend to shareholders, their re-election at the forthcoming annual general meeting. The nominations were made in accordance with the Nomination Policy and the Board Diversity Policy. The Nomination Committee was satisfied with the independence of Professor Chang Hsin Kang having regard to the independence criteria as set out in the Listing Rules and formed the view that the Company Board has maintained an appropriate mix and balance of skills, knowledge, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The Nomination Committee met twice in 2018. The attendance of individual directors at the committee meeting is set out on page 37 of this annual report.

The work performed by the Nomination Committee during 2018 included:

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

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

(iii) recommendation to the Company Board for approval the list of retiring directors of the Company for re-election at the Combined Annual General Meeting on May 10, 2018;

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

(v) recommendation to the Company Board for approval the appointment of Group Managing Director; and

(vi) recommendation to the Company Board for approval the appointment of Zhu Kebing as a Non-Executive Director of the Company after consideration of a range of diversity perspectives in accordance with the Board Diversity Policy.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Audit Committee

The Company Board established the Audit Committee with effect from the Listing Date. The Audit Committee is responsible for assisting the Company Board to ensure objectivity and credibility of financial reporting of the HKT Limited Group, and that the directors have exercised the care, diligence and skills prescribed by law when presenting the HKT Limited Group's results to the holders of Share Stapled Units. The Audit Committee is also responsible for assisting the Company Board to ensure that effective risk management and internal control systems of the HKT Limited Group are in place and good corporate governance standards and practices are maintained by the HKT Limited Group. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and HKEX.

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

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

During the year, the external auditor provided audit, audit related and permissible non-audit services to the HKT Limited Group. Audit services include services provided in connection with the audit of the HKT Limited Group's consolidated financial statements. Audit related services include services such as issuance of special audit or assurance reports for regulatory purposes, where the external auditor is best placed to undertake in its capacity as auditor. Permissible non-audit services include services such as tax compliance and tax planning services, and advisory services for compliance on regulatory requirement, which require specific review and approval by the Audit Committee.

For the year ended December 31, 2018, the fees paid or payable in respect of audit, audit related and permissible non-audit services provided to the HKT Limited Group by the external auditor amounted to approximately HK$11 million, HK$3 million and HK$7 million, respectively.

On February 22, 2019, the Audit Committee recommended to the Company Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2019 at the forthcoming Combined Annual General Meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor.

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

The members of the Audit Committee during 2018 and up to the date of this annual report are:
Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
Peter Anthony Allen

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and also reviews their reports. During 2018, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 37 of this annual report.

The work performed by the Audit Committee during 2018 included:

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

(ii) review of the draft annual report and the draft annual results announcement for the year ended December 31, 2017, with a recommendation to the Company Board for approval;

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Audit Committee *(continued)*

(iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report to the Audit Committee and the draft management representation letter for the year ended December 31, 2017, with a recommendation to the Company Board for the re-appointment of PricewaterhouseCoopers at the 2018 Combined Annual General Meeting;

(iv) review and assessment of the effectiveness of the risk management and internal control systems under the CG Code for the year ended December 31, 2017, with a recommendation to the Company Board for approval;

(v) review of the continuing connected transactions with the PCCW Limited Group (including PricewaterhouseCoopers' report on the continuing connected transactions) for the year ended December 31, 2017, with a recommendation to the Company Board for approval;

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

(vii) review of the draft interim report and the draft interim results announcement for the six months ended June 30, 2018, with a recommendation to the Company Board for approval;

(viii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report to the Audit Committee and the draft management representation letter for the six months ended June 30, 2018;

(ix) review and approval of the audit strategy memorandum for the year ending December 31, 2018;

(x) review and approval of PricewaterhouseCoopers' draft letters of engagement for the year ending December 31, 2018;

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

(xii) review and approval of PricewaterhouseCoopers' pre-year end report to the Audit Committee for the year 2018;

(xiii) consideration and approval of the 2018 audit and non-audit services and the 2019 annual budget for audit and non-audit services;

(xiv) review of the draft corporate governance report and practices for the year ended December 31, 2017 and the corporate governance disclosure for the six months ended June 30, 2018, with a recommendation to the Company Board for approval;

(xv) review of the draft environmental, social and governance report for the year ended December 31, 2017, with a recommendation to the Company Board for approval;

(xvi) consideration of the update on amendments to the CG Code and related Listing Rules issued by HKEX and review of the relevant updates to the existing and the newly developed policies, which include Board Diversity Policy, Nomination Policy, Distribution Policy and terms of reference of the Nomination Committee in compliance with the new corporate governance requirements effective from January 1, 2019, with a recommendation to the Company Board for approval;

(xvii) review of the results of the directors' self-evaluation and the board's self-assessment exercise for the year ended December 31, 2017 to evaluate the performance of the Company Board, its committees, and directors' contribution, with a recommendation to the Company Board for approval; and

(xviii) review and monitoring of training and CPD for directors and senior management.

Subsequent to the year end, the Audit Committee reviewed the draft annual report and the draft annual results announcement, as well as the report on the effectiveness of the risk management and internal control systems for the year ended December 31, 2018, with recommendations to the Company Board for approval.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Regulatory Compliance Committee

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

As at the date of this annual report, the members of the Regulatory Compliance Committee are:
Professor Chang Hsin Kang *(Chairman)*
Sunil Varma
Zhu Kebing

During the year, the following changes were made to the composition of the Regulatory Compliance Committee:

(1) Li Fushen resigned as a member with effect from September 18, 2018; and

(2) Zhu Kebing was appointed as a member with effect from September 18, 2018.

COMMITTEE OF THE TRUSTEE-MANAGER BOARD

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

The Trustee-Manager Audit Committee is responsible for assisting the Trustee-Manager Board to ensure objectivity and credibility of financial reporting of the HKT Trust and the Trustee-Manager, and that the directors of the Trustee-Manager have exercised the care, diligence and skills prescribed by law when presenting the HKT Trust's and the Trustee-Manager's results to the holders of Share Stapled Units. The Trustee-Manager Audit Committee is also responsible for assisting the Trustee-Manager Board to ensure that effective risk management and internal control systems of each of the HKT Trust and the Trustee-Manager (where applicable) are in place and good corporate governance standards and practices are maintained by the HKT Trust and the Trustee-Manager. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and HKEX.

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

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

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

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

For the year ended December 31, 2018, the fees paid or payable in respect of audit services provided to the HKT Trust and the Trustee-Manager by the external auditor amounted to approximately HK$0.05 million.

On February 22, 2019, the Trustee-Manager Audit Committee recommended to the Trustee-Manager Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the HKT Trust and the Trustee-Manager for the financial year 2019 at the forthcoming Combined Annual General Meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor. Furthermore, the fees and expenses of the auditors of the HKT Trust and the Trustee-Manager in connection with the audit of the financial statements of the HKT Trust and the Trustee-Manager are to be paid out of the Trust Property (as defined in the Trust Deed). The Trust Deed also requires that the membership of the Trustee-Manager Audit Committee must be the same as the membership of the Audit Committee of the Company Board.

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

The members of the Trustee-Manager Audit Committee during 2018 and up to the date of this annual report are:
Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
Peter Anthony Allen

The Trustee-Manager Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and also reviews their reports. During 2018, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 37 of this annual report.

The Trustee-Manager Audit Committee reviewed and noted the resolutions passed and matters approved and confirmed at the Audit Committee of the Company, whose work performed during 2018 and subsequent to the year end is set out under the heading of "**Audit Committee**" on pages 44 and 45 of this annual report, and where appropriate, approved and confirmed those items specific to the HKT Trust and the Trustee-Manager. Other work performed by the Trustee-Manager Audit Committee during 2018 included:

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

(ii) review of the draft financial information of the Trustee-Manager for the year ended December 31, 2017, with a recommendation to the Trustee-Manager Board for approval;

(iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report to the Trustee-Manager Audit Committee and the draft management representation letter for the year ended December 31, 2017, with a recommendation to the Trustee-Manager Board for the re-appointment of PricewaterhouseCoopers at the 2018 Combined Annual General Meeting;

(iv) review and assessment of the effectiveness of the risk management and internal control systems under the CG Code for the year ended December 31, 2017, with a recommendation to the Trustee-Manager Board for approval;

(v) review of the continuing connected transactions with the PCCW Limited Group (including PricewaterhouseCoopers' report on the continuing connected transactions) for the year ended December 31, 2017, with a recommendation to the Trustee-Manager Board for approval;

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

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

(vii) review of the draft financial information of the Trustee-Manager for the six months ended June 30, 2018, with a recommendation to the Trustee-Manager Board for approval;

(viii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report to the Trustee-Manager Audit Committee and the draft management representation letter for the six months ended June 30, 2018;

(ix) review and approval of the audit strategy memorandum for the year ending December 31, 2018;

(x) review and approval of PricewaterhouseCoopers' draft letters of engagement for the year ending December 31, 2018;

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

(xii) review and approval of PricewaterhouseCoopers' pre-year end report to the Trustee-Manager Audit Committee for the year 2018.

Subsequent to the year end, the Trustee-Manager Audit Committee reviewed the draft annual report and the draft annual results announcement of the HKT Trust (including the financial information of the Trustee-Manager), as well as the report on the effectiveness of the risk management and internal control systems for the year ended December 31, 2018, with a recommendation to the Trustee-Manager Board for approval.

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

RISK MANAGEMENT AND INTERNAL CONTROLS

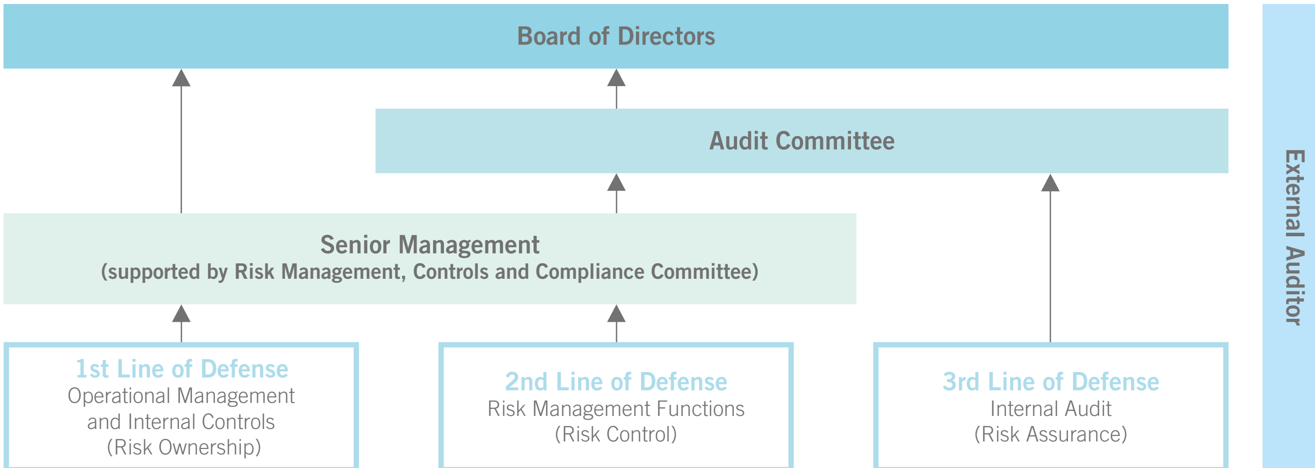
The Boards acknowledge their responsibility for overseeing the risk management and internal control systems of the Group and reviewing their effectiveness at least annually through the Trustee-Manager Audit Committee and the Company Audit Committee (collectively the "Audit Committees") respectively.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

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

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



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

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

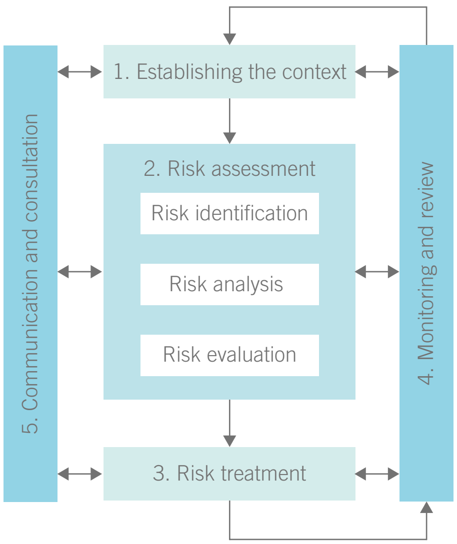
Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*



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

The Group has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group to regularly assess and at least annually to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Group and its business practices in the future.

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

The Audit Committees have established and oversee a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairmen of the respective Audit Committees have designated the Head of Group Internal Audit to receive on their behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations to them for consideration by the Audit Committees.

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

The Company has implemented processes to undertake extensive detailed testing of its internal controls, as well as annual certification as to these matters by the management of the Company, to support its assessment of the effectiveness of its risk management and internal control systems.

During 2018, the Risk Management and Compliance department has worked closely with the operating units, senior management, and the directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal controls with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management and Compliance department has presented update reports to the Audit Committees, which then reviewed and reported the same to the Boards, on the monitoring of the risk management and assisted the directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

During 2018, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions of the HKT Limited Group were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committees, which then reviewed and reported the same to the Boards. The Audit Committees and the Boards were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group (including the Trustee-Manager) and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

In addition to the review of risk management and internal controls undertaken within the Group, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

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

POTENTIAL CONFLICTS OF INTERESTS

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

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

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

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

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

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

COMPANY SECRETARY

Ms Bernadette M. Lomas has been appointed as the Group General Counsel and Company Secretary of the Trustee-Manager and the Company since August 2016. She is also the Group General Counsel and Company Secretary of PCCW. All directors of the Trustee-Manager and the Company have access to the advice and services of the company secretary, who is responsible for ensuring that the board procedures are followed, advising the Boards on all corporate governance matters, and arranging induction programs including briefings on the general and specific duties of directors under legal and regulatory requirements for newly appointed directors. The company secretary facilitates the induction and professional development of directors.

During the year ended December 31, 2018, Ms Lomas has received no less than 15 hours of relevant professional training to refresh her skills and knowledge.

RIGHTS OF HOLDERS OF SHARE STAPLED UNITS

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

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

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

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

Procedures by which enquiries may be put to the Boards

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

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

INVESTOR RELATIONS AND COMMUNICATION WITH THE HOLDERS OF SHARE STAPLED UNITS

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

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

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

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

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their holdings in the Share Stapled Units, the business of the Company and the HKT Trust are dealt with in an informative and timely manner. The relevant contact information is provided on page 199 of this annual report and also provided in the Unitholders Communication Policy.

Holders of Share Stapled Units are encouraged to attend the forthcoming Combined Annual General Meeting of the Company and the HKT Trust for which at least 20 clear business days' notice is given. At the meeting, directors will be available to answer questions on the business relating to HKT Limited Group and external auditor will be available to answer questions about the conduct of the audit, the preparation and content of the auditor's reports, the accounting policies and the auditor independence.

CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2018, there were no changes made to the Company Articles and the Trust Deed. Copies of these constitutional documents are available on the websites of the Company and HKEX.

By order of the boards of
HKT Management Limited and
HKT Limited

Bernadette M. Lomas
Group General Counsel and Company Secretary
Hong Kong, February 22, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Total revenue increased by 6% to HK$35,187 million
- Total EBITDA increased by 2% to HK$12,558 million
- Profit attributable to holders of Share Stapled Units increased by 2% to HK$4,825 million; basic earnings per Share Stapled Unit was 63.73 HK cents
- Adjusted funds flow for the year increased by 5% to HK$5,171 million; adjusted funds flow per Share Stapled Unit was 68.29 HK cents
- Final distribution per Share Stapled Unit of 39.17 HK cents

MANAGEMENT REVIEW

We are pleased to announce that HKT recorded another strong financial performance in 2018 reflecting the continuous improvement across all lines of business in terms of both operational and capital efficiencies. The results also demonstrated our continued leadership in the market through the enhancement of solutions-based offerings to both consumer customers and the enterprise sector.

Please note that the results for the year ended December 31, 2018 reflect the adoption of several new accounting standards and, for comparative purposes, the results for the year ended December 31, 2017 have been restated as if these new accounting standards had been in place.

Total revenue for the year ended December 31, 2018 increased by 6% to HK$35,187 million, underpinned by steady growth in Telecommunications Services ("TSS") and Mobile Services revenue as well as higher mobile handset sales during the year. Mobile Product Sales increased by 39% to HK$5,757 million, as compared to HK$4,150 million a year earlier.

Total EBITDA for the year was HK$12,558 million, an increase of 2% over the previous year. Profit attributable to holders of the share stapled units of the HKT Trust and HKT ("Share Stapled Units") was HK$4,825 million, an increase of 2% over the previous year. Basic earnings per Share Stapled Unit was 63.73 HK cents.

Adjusted funds flow for the year ended December 31, 2018 expanded by 5% to HK$5,171 million. Adjusted funds flow per Share Stapled Unit[3] correspondingly grew by 5% to 68.29 HK cents.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution of 39.17 HK cents per Share Stapled Unit for the year ended December 31, 2018. This brings the 2018 full-year distribution to 68.29 HK cents per Share Stapled Unit (comprising 29.12 HK cents as interim distribution and 39.17 HK cents as final distribution) representing the full payout of the annual adjusted funds flow per Share Stapled Unit.

OUTLOOK

HKT will continue to build on our solid foundation and to safeguard and maintain our leadership position across all lines of business. At the same time, we shall endeavor to pursue innovation and explore new business models and revenue streams, leveraging our current extensive infrastructure and market knowledge. As individuals adopt the digital lifestyle and businesses accelerate their digital transformation, we will also continue to embed and embrace development in the digital space, and act with agility and resolve to reap the digital dividend.

Backed by our comprehensive infrastructure and ICT experience, the Company will actively participate in the smart city evolution which we believe will improve the quality of life in Hong Kong and create new business opportunities.

In 2019, whilst continuing to be prudent, we will build on our strengths and explore new growth drivers. Our aim is to optimally allocate resources into our existing robust operations and new businesses for the continued prosperity and growth of the Company.

Note: The results for the year ended December 31, 2018 reflect the adoption of several new accounting standards and, for comparative purposes, the results for the year ended December 31, 2017 have been restated as if these new accounting standards had been in place.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2017 H1 (Restated)	2017 H2 (Restated)	2017 Full Year (Restated)	**2018 H1**	**2018 H2**	**2018 Full Year**	Better/ (Worse) y-o-y
Revenue							
TSS	10,042	11,482	21,524	**10,155**	**11,619**	**21,774**	1%
Mobile	5,505	6,733	12,238	**7,212**	**6,797**	**14,009**	14%
– Mobile Services	3,813	4,275	8,088	**3,838**	**4,414**	**8,252**	2%
– Mobile Product Sales	1,692	2,458	4,150	**3,374**	**2,383**	**5,757**	39%
Other Businesses	78	77	155	**77**	**163**	**240**	55%
Eliminations	(414)	(436)	(850)	**(422)**	**(414)**	**(836)**	2%
Total revenue	15,211	17,856	33,067	**17,022**	**18,165**	**35,187**	6%
Cost of sales	(7,124)	(8,848)	(15,972)	**(8,858)**	**(9,122)**	**(17,980)**	(13)%
Gross Margin	*53%*	*50%*	*52%*	***48%***	***50%***	***49%***	
Gross Margin (excluding Mobile Product Sales)	*60%*	*59%*	*59%*	***60%***	***58%***	***59%***	
Operating costs before depreciation, amortization, and (loss)/gain on disposal of property, plant and equipment, right-of-use assets and intangible assets, net	(2,540)	(2,270)	(4,810)	**(2,525)**	**(2,124)**	**(4,649)**	3%
EBITDA[1]							
TSS	3,689	4,371	8,060	**3,762**	**4,442**	**8,204**	2%
Mobile	2,121	2,695	4,816	**2,170**	**2,789**	**4,959**	3%
– Mobile Services	2,153	2,744	4,897	**2,201**	**2,833**	**5,034**	3%
– Mobile Product Sales	(32)	(49)	(81)	**(31)**	**(44)**	**(75)**	7%
Other Businesses	(263)	(328)	(591)	**(293)**	**(312)**	**(605)**	(2)%
Total EBITDA[1]	5,547	6,738	12,285	**5,639**	**6,919**	**12,558**	2%
TSS EBITDA[1] Margin	*37%*	*38%*	*37%*	***37%***	***38%***	***38%***	
Mobile EBITDA[1] Margin	*39%*	*40%*	*39%*	***30%***	***41%***	***35%***	
– Mobile Services EBITDA[1] Margin	*56%*	*64%*	*61%*	***57%***	***64%***	***61%***	
Total EBITDA[1] Margin	*36%*	*38%*	*37%*	***33%***	***38%***	***36%***	
Total EBITDA[1] Margin (excluding Mobile Product Sales)	*41%*	*44%*	*43%*	***42%***	***44%***	***43%***	
Depreciation and amortization	(2,681)	(2,648)	(5,329)	**(2,701)**	**(2,642)**	**(5,343)**	–
(Loss)/gain on disposal of property, plant and equipment, right-of-use assets and intangible assets, net	(1)	3	2	**2**	**(1)**	**1**	(50)%
Other (losses)/gains, net	(2)	(143)	(145)	**(2)**	**4**	**2**	NA
Finance costs, net	(560)	(588)	(1,148)	**(626)**	**(724)**	**(1,350)**	(18)%
Share of results of associates and joint ventures	7	(17)	(10)	**(6)**	**(10)**	**(16)**	(60)%
Profit before income tax	2,310	3,345	5,655	**2,306**	**3,546**	**5,852**	3%

ADJUSTED FUNDS FLOW

For the year ended December 31, HK$ million	2017 H1 (Restated)	2017 H2 (Restated)	2017 Full Year (Restated)	**2018 H1**	**2018 H2**	**2018 Full Year**	Better/(Worse) y-o-y
Total EBITDA[1]	5,547	6,738	12,285	**5,639**	**6,919**	**12,558**	2%
Less cash outflows in respect of capital expenditures, customer acquisition costs and licence fees[2]:							
Capital expenditures	(1,302)	(1,300)	(2,602)	**(1,322)**	**(1,214)**	**(2,536)**	3%
Customer acquisition costs and licence fees	(483)	(619)	(1,102)	**(444)**	**(804)**	**(1,248)**	(13)%
Fulfillment costs	(218)	(209)	(427)	**(180)**	**(195)**	**(375)**	12%
Right-of-use assets	(791)	(870)	(1,661)	**(847)**	**(818)**	**(1,665)**	–
Adjusted funds flow before tax paid, net finance costs paid and changes in working capital	2,753	3,740	6,493	**2,846**	**3,888**	**6,734**	4%
Adjusted for:							
Tax payment	(141)	(570)	(711)	**(174)**	**(524)**	**(698)**	2%
Net finance costs paid	(418)	(412)	(830)	**(436)**	**(411)**	**(847)**	(2)%
Changes in working capital	(65)	25	(40)	**(31)**	**13**	**(18)**	55%
Adjusted funds flow[3]	2,129	2,783	4,912	**2,205**	**2,966**	**5,171**	5%
Annual adjusted funds flow per Share Stapled Unit (HK cents)[4]			64.87			**68.29**	

KEY OPERATING DRIVERS[5]

	2017 H1	2017 H2	**2018 H1**	**2018 H2**	Better/(Worse) y-o-y
Exchange lines in service ('000)	2,645	2,638	**2,636**	**2,631**	–
Business lines ('000)	1,250	1,249	**1,251**	**1,251**	–
Residential lines ('000)	1,395	1,389	**1,385**	**1,380**	(1)%
Total broadband access lines ('000) (Consumer, business and wholesale)	1,572	1,591	**1,606**	**1,615**	2%
Retail consumer broadband access lines ('000)	1,407	1,423	**1,439**	**1,445**	2%
Retail business broadband access lines ('000)	149	154	**155**	**158**	3%
Traditional data (Exit Gbps)	6,552	7,121	**7,400**	**8,811**	24%
Mobile subscribers ('000)	4,218	4,407	**4,232**	**4,324**	(2)%
Post-paid subscribers ('000)	3,168	3,217	**3,242**	**3,247**	1%
Prepaid subscribers ('000)	1,050	1,190	**990**	**1,077**	(9)%

[Note 1] EBITDA represents earnings before interest income, finance costs, income tax, depreciation and amortization, gain/loss on disposal of property, plant and equipment, interests in leasehold land, right-of-use assets 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 ("HKFRSs") 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] Group capital expenditures represent additions to property, plant and equipment and interests in leasehold land. Fulfillment costs and right-of-use assets are considered as part of customer acquisition costs and capital expenditures, respectively, for the purpose of adjusted funds flow calculation.

[Note 3] Adjusted funds flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRSs and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRSs, or an alternative to cash flow from operations or a measure of liquidity. The Group's adjusted funds flow is computed in accordance with the above definition using financial information derived from the Group's audited consolidated financial statements. The adjusted funds flow may be used for debt repayment.

[Note 4] Annual adjusted funds flow per Share Stapled Unit is calculated by dividing the adjusted funds flow for the year by the number of Share Stapled Units in issue as at the respective year end.

[Note 5] Figures are stated as at the period end.

[Note 6] Gross debt refers to the principal amount of short-term borrowings and long-term borrowings.

Telecommunications Services

For the year ended December 31, HK$ million	2017			**2018**			Better/ (Worse)
	H1 *(Restated)*	H2 *(Restated)*	Full Year *(Restated)*	**H1**	**H2**	**Full Year**	y-o-y
TSS Revenue							
Local Telephony Services	1,656	1,729	3,385	**1,634**	**1,706**	**3,340**	(1)%
Local Data Services	3,219	3,908	7,127	**3,372**	**4,000**	**7,372**	3%
International Telecommunications Services	3,602	3,874	7,476	**3,637**	**3,839**	**7,476**	–
Other Services	1,565	1,971	3,536	**1,512**	**2,074**	**3,586**	1%
Total TSS Revenue	10,042	11,482	21,524	**10,155**	**11,619**	**21,774**	1%
Cost of sales	(4,789)	(5,501)	(10,290)	**(4,839)**	**(5,818)**	**(10,657)**	(4)%
Operating costs before depreciation and amortization	(1,564)	(1,610)	(3,174)	**(1,554)**	**(1,359)**	**(2,913)**	8%
Total TSS EBITDA[1]	3,689	4,371	8,060	**3,762**	**4,442**	**8,204**	2%
TSS EBITDA[1] margin	*37%*	*38%*	*37%*	***37%***	***38%***	***38%***	

TSS revenue for the year ended December 31, 2018 increased by 1% to HK$21,774 million. EBITDA for the year increased by 2% to HK$8,204 million, with the margin improving to 38% from 37% a year earlier as a result of sustained improvement in operating efficiencies.

Local Telephony Services. Local telephony services revenue was HK$3,340 million for the year ended December 31, 2018, as compared to HK$3,385 million a year earlier, reflecting the gradual transition of local telephony customers to HKT's broadband and mobile products and services. Total fixed lines in service at the end of December 2018 were 2.631 million, as compared to 2.638 million a year earlier.

Local Data Services. Local data services revenue, comprising broadband network revenue and local data revenue, increased by 3% to HK$7,372 million for the year ended December 31, 2018.

Broadband network revenue grew by 2% during the year, marking the 11th consecutive year of growth. This sustained growth in Broadband network revenue reflects our reputation as a trusted operator capable of delivering the fastest network connections to customers through our territory-wide fiber-to-the-home ("FTTH") service as well as our persistent efforts to enhance customer experience through various value-added services such as Home Wi-Fi and Smart Living. These innovations differentiate HKT's service offerings and help to mitigate the impact of the price focused competition prevailing in the market. We also continued to successfully tailor our services to meet our customers' needs through our multi-brand service approach of "HKT Premier", "NETVIGATOR" and "LiKE100". As a result, the total number of broadband access lines at the end of December 2018 grew by 2% to 1.615 million from 1.591 million as at the end of December 2017. Of these broadband access lines, there were 781,000 FTTH access lines which represented a net increase of 83,000 or 12% from a year earlier.

Local data revenue sustained its growth momentum which was driven by our extensive solution offerings for enterprise customers undergoing digital transformation. Local data revenue recorded a 6% increase for the year ended December 31, 2018. This growth reflected the strong enterprise demand for cross-border connectivity solutions and network facility management solutions integrating connectivity, cloud-based applications and ancillary co-location services.

International Telecommunications Services. International telecommunications services revenue for the year ended December 31, 2018 was steady at HK$7,476 million. The stable performance was supported by the demand for connectivity services from international carriers and enterprise customers as well as the cross-selling of cloud-based services of unified communications and managed security. However, this was offset by a softening in international voice revenue.

Other Services. Other services revenue primarily comprises revenue from the sales of network equipment and customer premises equipment ("CPE"), provision of technical and maintenance subcontracting services and contact centre services ("Teleservices"). Other services revenue for the year ended December 31, 2018 increased by 1% to HK$3,586 million primarily due to increased sales of network equipment arising from the joint collaboration between HKT and PCCW Solutions to deliver network and infrastructure solutions to enterprise customers.

Mobile

For the year ended December 31, HK$ million	2017 H1 (Restated)	2017 H2 (Restated)	2017 Full Year (Restated)	**2018 H1**	**2018 H2**	**2018 Full Year**	Better/ (Worse) y-o-y
Mobile Revenue							
Mobile Services	3,813	4,275	8,088	**3,838**	**4,414**	**8,252**	2%
Mobile Product Sales	1,692	2,458	4,150	**3,374**	**2,383**	**5,757**	39%
Total Mobile Revenue	5,505	6,733	12,238	**7,212**	**6,797**	**14,009**	14%
Mobile EBITDA[1]							
Mobile Services	2,153	2,744	4,897	**2,201**	**2,833**	**5,034**	3%
Mobile Product Sales	(32)	(49)	(81)	**(31)**	**(44)**	**(75)**	7%
Total Mobile EBITDA[1]	2,121	2,695	4,816	**2,170**	**2,789**	**4,959**	3%
Mobile EBITDA[1] margin	*39%*	*40%*	*39%*	***30%***	***41%***	***35%***	
Mobile Services EBITDA[1] margin	*56%*	*64%*	*61%*	***57%***	***64%***	***61%***	

The Mobile business registered a 14% increase in total revenue to HK$14,009 million for the year ended December 31, 2018, as compared to HK$12,238 million a year earlier.

Mobile services revenue for the year ended December 31, 2018 grew by 2% to HK$8,252 million from HK$8,088 million a year earlier. The growth in Mobile services revenue was on the back of a 1% expansion in the post-paid customer base to 3.247 million from a year earlier, which reflected our extensive acquisition and retention efforts including initiatives of The Club. HKT also successfully increased per customer spend through upgrades to our premium 1O1O service as well as positive pricing actions that were introduced at the end of 2018. However, these positive impacts were moderated by the continued shift away from IDD and roaming services by mobile customers. During the year, IDD and roaming revenue accounted for 13% of Mobile services revenue, as compared to 15% a year earlier. In line with our focus on profitability, we introduced a wide range of value-added services, including numerous easy-to-use and affordable roaming services, to drive increased customer spending.

As a result, the post-paid exit average revenue per user ("ARPU") as at the end of December 2018 was HK$198, which represents an increase of 2% from HK$195 as at the end of June 2018.

The churn rate for post-paid customers improved to 1.0% in 2018 from 1.1% a year earlier, reflecting the effectiveness of our multi-brand strategy, network supremacy and enhanced customer retention efforts through The Club.

During the year, revenue from Mobile Product Sales increased by 39% to HK$5,757 million from HK$4,150 million a year earlier, benefiting from our offering of a wide range of choices of handset brands and models at different price levels.

Mobile continued to deliver satisfactory Services EBITDA growth of 3% to HK$5,034 million, with margin steady at 61%. Total Mobile EBITDA for the year also increased by 3% to HK$4,959 million. Blended EBITDA margin was 35% because of the increased proportion of lower margin Mobile Product Sales.

Other Businesses

Other Businesses primarily comprises new business areas such as Tap & Go and The Club and corporate support functions. Revenue from Other Businesses grew by 55% to HK$240 million for the year ended December 31, 2018, with growth partly attributable to these new business initiatives. As at December 31, 2018, The Club had approximately 2.7 million members, compared with 2.3 million a year earlier. Tap & Go had approximately 1.8 million accounts in service as at December 31, 2018, compared with 0.9 million a year earlier.

Eliminations

Eliminations were HK$836 million for the year ended December 31, 2018, as compared to HK$850 million a year earlier. This reflects the continued collaboration amongst HKT's various business segments to seamlessly integrate our capabilities and offer comprehensive products and services to retail and enterprise customers.

Cost of Sales

Cost of sales for the year ended December 31, 2018 increased by 13% to HK$17,980 million, reflecting the costs associated with the increase in Mobile Product Sales during the year. Gross margin was 49% for the year, as compared to 52% a year earlier, mainly due to the dilutionary impact of the higher proportion of Mobile Product Sales. Excluding Mobile Product Sales, gross margin was steady at 59% for the year.

General and Administrative Expenses

For the year ended December 31, 2018, operating costs before depreciation, amortization, and (loss)/gain on disposal of property, plant and equipment, right-of-use assets and intangible assets, net, ("operating costs") improved by 3% to HK$4,649 million reflecting sustained improvements in operating efficiencies, slightly offset by an increase in other operating costs to drive new growth verticals such as Club Travel and HKT Financial Services. The operating costs to Mobile Services revenue ratio for the Mobile business improved to 17.1% from 17.3% a year earlier, while the operating costs to revenue ratio for the TSS business improved to 13.4% from 14.7% a year earlier. Overall operating costs to revenue ratio, therefore, improved to 13.2% from 14.5% a year earlier.

Depreciation expenses decreased by 3% for the year reflecting the Group's capital expenditure efficiencies arising from its extensive fiber network and the CSL integration. Amortization expenses increased by 4% due to further investments in business-enabling platforms that help to enhance the customer experience. As a result, total depreciation and amortization expenses were steady at HK$5,343 million for the year ended December 31, 2018.

General and administrative expenses, therefore, decreased by 1% to HK$9,991 million for the year ended December 31, 2018, as compared to HK$10,137 million a year earlier.

EBITDA[1]

As a result of the steady performance in the TSS and Mobile businesses and sustained operating efficiencies, overall EBITDA increased by 2% to HK$12,558 million for the year ended December 31, 2018. The overall EBITDA margin was 36% in 2018, as compared to 37% a year earlier, primarily due to the dilutionary impact of Mobile Product Sales. Excluding Mobile Product Sales, the EBITDA margin was steady at 43% for the year.

Finance Costs, Net

Net finance costs for the year ended December 31, 2018 increased by 18% to HK$1,350 million from HK$1,148 million a year earlier, mainly due to the general increase in HIBOR and the accelerated recognition of front-end fees upon the refinancing of maturing debt during the year. The average cost of debt increased to 3.0% during the year, as compared to 2.6% a year earlier.

Income Tax

Income tax expense for the year ended December 31, 2018 was HK$1,010 million, as compared to HK$898 million a year earlier, representing an effective tax rate of 17% for the year versus an effective tax rate of 16% a year earlier. The income tax expense was lower 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 of HK$17 million (2017: HK$12 million) primarily comprised the net profit attributable to the minority shareholders of Sun Mobile Limited.

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

Profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2018 increased by 2% to HK$4,825 million (2017: HK$4,745 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholder return and 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.

HKT's gross debt[6] was HK$40,387 million as at December 31, 2018 (December 31, 2017: HK$39,338 million). Cash and short-term deposits totaled HK$3,057 million as at December 31, 2018 (December 31, 2017: HK$3,667 million). HKT's gross debt[6] to total assets was 41% as at December 31, 2018 (December 31, 2017: 41%).

As at December 31, 2018, HKT had ample liquidity as evidenced by committed banking facilities totaling HK$27,442 million, of which HK$4,710 million remained undrawn.

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2018, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE[2]

Capital expenditure including capitalized interest for the year ended December 31, 2018 was HK$2,588 million (2017: HK$2,655 million). Capital expenditure relative to revenue was 7.4% for the year ended December 31, 2018 (2017: 8.0%).

Capital expenditure for the Mobile business remained steady in 2018 with the majority of spending allocated towards coverage expansion and critical infrastructure enhancements to prepare for 5G rollout. Capital expenditure for the TSS business declined slightly. During the year, the majority of the capital expenditure for the TSS business was to meet the continued demand for fiber broadband connectivity, customized solutions for enterprises, Internet of Things ("IoT") related services as well as the smart city development in the public sector.

HKT will continue to invest in building digital capabilities to enable its growth in new areas and prudently invest in building a 5G network 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, HKT continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Finance and Management Committee, a sub-committee of the Executive Committee of the board of directors of the Company, determines appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with the policies and guidelines, approved by the Finance and Management Committee, which are reviewed on a regular basis.

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

As for financing, a significant portion of HKT's debt is denominated in foreign currencies including United States dollars. Accordingly, HKT has entered into forward and swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2018, all forward and swap contracts were designated as cash flow hedges for the related borrowings of HKT.

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

CHARGE ON ASSETS

As at December 31, 2018, no assets of the Group (2017: nil) were pledged to secure loans and banking facilities of HKT.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2017	**2018**
Performance guarantees	237	**249**
Others	64	**64**
	301	**313**

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

HUMAN RESOURCES

HKT had over 17,200 employees as at December 31, 2018 (2017: 17,600) located in 46 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. HKT has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for HKT as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND/DISTRIBUTION

The board of directors of the Trustee-Manager has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 39.17 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the trust deed dated November 7, 2011 constituting the HKT Trust (the "Trust Deed")), in respect of the year ended December 31, 2018 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 39.17 HK cents per ordinary share, in respect of the same period), subject to the approval of unitholders of the HKT Trust and of shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and of shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM"). An interim distribution/dividend of 29.12 HK cents per Share Stapled Unit/ordinary share of the Company for the six months ended June 30, 2018 was paid to holders of Share Stapled Units/shareholder of the Company in September 2018.

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

FINANCIAL INFORMATION

COMBINED REPORT OF THE DIRECTORS

The board of directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) (the "Trustee-Manager Board") and the board of directors of HKT Limited (the "Company" or "HKT") (the "Company Board") present their combined report together with the audited consolidated financial statements of (i) the HKT Trust and the Company and its subsidiaries (collectively the "Group") and (ii) the Company and its subsidiaries (collectively the "HKT Limited Group") (the consolidated financial statements of the Group and the HKT Limited Group are presented together and referred to as the "HKT Trust and HKT Limited consolidated financial statements") for the year ended December 31, 2018.

The Trustee-Manager Board also presents its audited financial statements for the year ended December 31, 2018, which are set out in the accompanying financial statements on pages 188 to 198.

PRINCIPAL ACTIVITIES

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

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

The principal activities of the Company's principal subsidiaries and the Group's principal joint venture are set out in notes 27 and 23 respectively to the HKT Trust and HKT Limited consolidated financial statements.

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

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

BUSINESS REVIEW

A fair review of the business of the Group during the year and particulars of important events affecting the Group that have occurred since the end of the financial year 2018 as well as a discussion on the Group's future business development are provided in the Statement from the Chairman, the Statement from the Group Managing Director and the Management's Discussion and Analysis on page 4, pages 5 to 9 and pages 54 to 62 respectively. The above discussions form part of this report.

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

Principal Risks and Uncertainties

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

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

BUSINESS REVIEW *(CONTINUED)*

Principal Risks and Uncertainties *(continued)*

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

Competition – The Group operates in markets and industries where the regulation is pro-competition and pro-consumer. This has led to increased competition and pricing pressure, and increased promotional, marketing and customer acquisition expenditures. The Group has operated in this competitive landscape for almost twenty years and has had to, and continues to adapt its business strategies in light of the evolving marketplace.

Financial – The Group operates in a number of jurisdictions and has significant indebtedness and obligations denominated in foreign currencies. The Group is exposed to financial risks, such as, foreign currency risks, interest rate risks and liquidity risks. The Group is aware of the possibility that key interest rates may rise in the foreseeable future and that if not appropriately managed, these may have a significant impact on the Group's cost of financing.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between unitholder return and a sound capital position. Adjustments are made, when necessary, to maintain an optimal capital structure in light of changes in economic conditions and to reduce the cost of capital. As for financing, a significant portion of the Group's debt is denominated in foreign currencies including United States dollars. Accordingly, forward and swap contracts are used to manage the Group's exposure to adverse fluctuations in foreign currency exchange rates and interest rates.

For details of the Group's financial management policies and strategies in managing these financial risks, please refer to the Management's Discussion and Analysis of this annual report and note 38 to the HKT Trust and HKT Limited consolidated financial statements.

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

In addition, the Group continues to expand its operations overseas. This increases its exposure to multiple and occasionally conflicting regulatory regimes, including an increasing number of which that include extra-territorial provisions. The Group's lack of familiarity with such overseas markets, in particular the lack of clarity in, and interpretation of, continuously changing laws and regulations increases the risk of the Group's ability to successfully operate in such markets. To mitigate such risks, the Group regularly engages subject matter experts to advise on relevant matters and to provide notification of pending changes and that may impact on the Group's activities.

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

The Group cannot be certain that technologies will be developed in time to meet changing market conditions, that they will perform according to expectations or that the technologies it adopts will achieve commercial acceptance. The Group is taking note of, and will adopt appropriate measures necessary to deal with, the increasing potential impact evolving geopolitical activities may have on its choice of, and/or ability to operate, certain core and/or ancillary technologies.

Additionally, any sustained failure of the Group's network, its servers, or any link in the delivery chain, whether from operational disruption, natural disaster, or otherwise, could have a material adverse effect on the Group's businesses, financial conditions and results of operations. Network performance is closely monitored by teams of experienced professionals to ensure that the network is reliable and available to support business growth and business operations.

Cyber Security – The Group handles significant amounts of customer data, personal information and other sensitive commercial data which are susceptible to cyber threats. The Group's operations, reputation and financial performance could be adversely impacted if the Group sustains cyber-attacks and/or other data security breaches that disrupt its operations. The Group makes extensive use of multiple channels to keep informed of emerging cyber security threats and to identify and implement measures intended to mitigate the occurrence and/or consequences of such risks being realized.

BUSINESS REVIEW *(CONTINUED)*

Principal Risks and Uncertainties *(continued)*

Global Economic and Trade Environment – The global financial markets remain highly volatile and a slowdown in global economies arising from current trade uncertainties may result in a significant decline in demand for the Group's services across both consumer and corporate markets. In addition, changes in the global credit and financial markets may affect the availability of credit and lead to an increase in the cost of financing.

People – The Group's success and ability to grow depends largely on its ability to attract, train, retain, and motivate highly skilled and qualified managerial, sales, marketing, administrative, operating, and technical personnel. The loss of key personnel, or the inability to find additional qualified personnel, could materially and adversely affect the Group's prospects and results of operations. The Group constantly reviews its human resources philosophy and strategy to ensure that its human resources policies, processes and practices are able to facilitate its organization development.

Regulatory and Operational Compliance – The Group operates in markets and industries which require compliance with numerous regulations, including but not limited to, the Telecommunications Ordinance (Cap. 106), the Trade Descriptions Ordinance (Cap. 362), the Competition Ordinance (Cap. 619), the Personal Data (Privacy) Ordinance (Cap. 486) and the Payment Systems and Stored Value Facilities Ordinance (Cap. 584). The failure to be responsive to changes to such regulations may adversely affect the Group's reputation, operations and financial performance. Please refer to sub-section headed "**Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group**" below for further discussion on this topic.

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

Environmental Policies and Performance

As a responsible corporate citizen, HKT recognizes the importance of good environmental stewardship. In this connection, HKT has in place a Corporate Social Responsibility ("CSR") Policy and has adopted other related policies and procedures of its parent company PCCW. A CSR Committee sets forth and promulgates the Company's environmental strategy and other CSR initiatives. In 2018, an Environmental Advisory Group comprising group unit heads was established under the CSR Committee to strengthen our efforts on sustainability.

The Company actively participates in various external environmental working groups. PCCW is a council member of Business Environment Council and a corporate member of Food Grace. HKT is a member of The Green Earth.

To minimize light nuisance, HKT has been supporting the WWF's annual Earth Hour campaign for years. HKT is a signatory to the Charter on External Lighting scheme of the Environment Bureau and in 2018 received the Platinum Award for switching off external lighting at selected shops at designated hours.

The Group incorporates environmentally friendly considerations into sustainable business operations. Electric vehicle charging solutions are provided through an equal joint venture, Smart Charge (HK) Limited, with CLP Holdings Limited to encourage electric mobility for a cleaner environment. The Group has been investing in modernizing air-conditioning systems and equipment at the exchange buildings with better energy efficiency to reduce energy consumption.

We have well-established practices in recycling scrap metals which include copper, iron and steel as well as scrap materials. We also promote handset recycling across our shop network. In accordance with the Producer Responsibility Scheme on waste electrical and electronic equipment (WPRS), removal services for waste electrical and electronic equipment (WEEE) are provided to our customers. The Group has adopted paperless systems and practices in its daily operations such as human resources and procurement as appropriate, as well as in retail shops and for customer services. E-billing is also offered to customers in a bid to reduce paper consumption. We utilize PEFC (Programme for the Endorsement of Forest Certification) certified paper made with forest materials from a sustainable source for copy paper and printing of bills.

Environmental Policies and Performance *(continued)*

We have since October 2018 stopped providing drinking straws at our staff canteens to help reduce the use of disposable plastics. Upcycling DIY workshops were also organized periodically. Our internal newsletter publishes a regular Green Matters column, which provides information on environmental issues and the Group's green initiatives.

In 2018, HKT won the First Runner-up in the Biggest Units Saver Award (Organization) of the Power Smart Energy Saving Contest 2017-18 organized by Friends of the Earth (HK). We were also granted the Friends of EcoPark 2018 award for our contributions to waste recycling and recovery.

Environmental-related key performance indicators have been included in the HKT Environmental, Social and Governance Report 2018.

Relationships with Stakeholders

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

HKT considers its employees the key to sustainable business growth. We are committed to providing our employees with a safe and harassment-free working environment with equal opportunities in relation to employment, rewards, training and career development. This commitment is incorporated in our Corporate Responsibility Policy and all of the Group's related policies. We strive to build an inclusive workplace, investing in staff engagement and well-being as well as ensuring that every HKT employee can reach their full potential.

In 2018, we launched a series of health and well-being programs and improved our maternity leave and paternity leave benefits.

We strive to position ourselves as an Employer of Choice with a view to attracting and retaining talented individuals to sustain a diverse and vibrant workforce. Our workforce now comprises employees of over 50 nationalities with a diverse range of expertise and background. We have in place a fair and effective performance appraisal system and incentive bonus schemes designed to motivate and reward employees at all levels to deliver at their optimal level to achieve business performance targets.

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

We have established robust succession and strong talent pipeline, comprehensive training and leadership programs to nurture the talents we need to fuel business growth. We offer opportunities for employees to participate in projects which equip them with state of the art technology or overseas work exposure. In addition, we embark on continual development initiatives to ensure our staff's knowledge and skills remain current with advances in technology and business acumen. In 2018, we introduced the What's New Out There Forum, a new initiative designed to help promote new technologies and related business developments, so as to strengthen our innovative spirit and relevance. In each session, internal or external experts share their insights on the latest technology trends and developments. The Company also offers fresh graduates opportunities to build a career in the fast-paced technology sector through a well-structured Graduate Trainee Program.

Employee safety is of paramount importance and we make every effort to provide a safe working environment. Accident prevention is an important factor for consideration when selecting new designs, procedures and equipment. The Group Safety Charter demonstrates our commitment to uplifting our safety standard and strengthening the safety culture.

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

As a customer-focused service provider, we consider customers as one of the most important stakeholders. With a commitment to transforming customers' lifestyle through continuous innovation, HKT has extended service offerings beyond connectivity into areas such as Smart Living to help customers build a modern and convenient home.

BUSINESS REVIEW *(CONTINUED)*

Relationships with Stakeholders *(continued)*

To ensure a high level of customer satisfaction, our customer service representatives can be reached via service hotlines, live webchat, online enquiry in My HKT portal, or at retail shops and customer service centers. We also conduct Customer Satisfaction Survey, Customer Transaction Survey, Net Promoter Score Survey and mystery shopper program to help us evaluate the service quality and gain customer feedback. In 2018, we launched the We Smile campaign to reiterate the importance of excellent customer experience.

In recognition of its outstanding customer service, among other awards, the Group won more than 140 awards throughout 2018 in different categories at the Contact Center World, Hong Kong Association for Customer Service Excellence, Hong Kong Retail Management Association, and Mystery Shopper Service Association. HKT also won the Grand Award of the Year in the Hong Kong Call Centre Association Awards 2018. HKT received over 50,800 customer compliments in 2018. In addition, the Group has in place a customer loyalty and rewards program, The Club, offering a wide variety of privileges to customers.

With the enactment of new legislation in the EU (European Union) under the General Data Protection Regulation (GDPR) in May 2018 and increased public awareness of the need to protect personal data, the Group undertook a comprehensive review and revised its Privacy Statement correspondingly to ensure compliance with the regulatory change where applicable. Our ISO 27001-certified information security management systems are just one of the methods we employ to aid in keeping our customer information secure.

HKT is committed to upholding the highest ethical and professional standards when dealing with suppliers and contractors. The Group maintains relationship with around 3,500 suppliers globally. To integrate CSR principles throughout our supply chain, the Company has in place the Group Purchasing Policy and Principles, and a Supplier Code of Conduct to facilitate a common means whereby we can better communicate with our business partners regarding their compliance with local regulations governing labor, health and safety, and the environment. In order to have a better and close monitoring of supplier performance, our buying units conduct supplier review and assessment visits throughout the year, targeting our major suppliers and contractors, and will communicate with the suppliers with unsatisfactory rating for rectification or improvements.

In 2018, we attained the ISO 9001:2015 quality management system certification which enables us to continuously improve our procurement process and achieve the highest standard of business practices and service offering. HKT joined the Sustainable Procurement Charter launched by the Green Council as one of its founding members.

Together with PCCW, HKT supports the Hong Kong community through a diverse range of initiatives serving the elderly, students and youth, children, people with disabilities and other groups. Being the premier telecommunications provider in Hong Kong, the Group provides hardware and communications services for charities and various community groups in need. We also strive to connect elderly people with technologies that promote active and smart aging. Through virtual reality (VR) and Smart Pama smartphone workshops conducted at our retail shops and the elderly centers of our community partners, senior citizens are able to enjoy the convenience brought by technology. We care for the safety and communication needs of senior citizens with the continuous sponsorship for the Care for the Elderly Line.

To equip students and youth with skills and resources to excel in the digital age, HKT and PCCW have been sponsoring the Youth IT Summer Camp and providing annual scholarships and bursaries to university students of computer science, information technology, and other disciplines. We employ our competencies to promote STEM (Science, Technology, Engineering and Mathematics) education.

The Group's corporate volunteer team, comprising employees, their family members and company retirees, last year ran 30 ongoing programs and 14 special programs for various charities and social services groups. In 2018, the volunteer team was once again given the Award of 10,000 Hours for Volunteer Service and the Merit of Highest Service Hour Award 2017 (Private Organizations – Category 1) by the Steering Committee on Promotion of Volunteer Service of the Social Welfare Department for contributing more than 10,000 hours of volunteer service to the community in 2017. The volunteer team also won the Bronze Award in the volunteer team category of the Hong Kong Corporate Citizenship Programme organized by the Hong Kong Productivity Council and the Committee on the Promotion of Civic Education in 2018. HKT was also awarded the Social Capital Builder logo from the Labour and Welfare Bureau's Community Investment and Inclusion Fund. In appreciation of the commitment of staff volunteers, HKT operates a Volunteer Appreciation Scheme whereby employees participating in community services may be entitled to volunteer leave days.

HKT is awarded the 5 Years Plus Caring Company Logo from Hong Kong Council of Social Service's Caring Company Scheme, in recognition of our having been a caring company for over 5 years.

BUSINESS REVIEW *(CONTINUED)*

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

The Group and its activities are subject to requirements under various laws and regulations. These include, among others, the Telecommunications Ordinance (Cap. 106), the Trade Descriptions Ordinance (Cap. 362), the Competition Ordinance (Cap. 619), the Personal Data (Privacy) Ordinance (Cap. 486), the Payment Systems and Stored Value Facilities Ordinance (Cap. 584), the Employment Ordinance (Cap. 57), and the applicable regulations, guidelines, policies and licence terms issued or promulgated under or in connection with these statutes. In addition, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") apply to the HKT Trust, HKT and the Trustee-Manager. The Company seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group. While these measures require considerable internal resources and result in additional operational cost, the Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

Telecommunications Ordinance ("TO")

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

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

Trade Descriptions Ordinance ("TDO")

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

Competition Ordinance ("CO")

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

Personal Data (Privacy) Ordinance ("PDPO")

The PDPO aims to protect data privacy rights by regulating the collection, retention and handling of personal data. Non-compliance with the data protection principles or any specific provisions in PDPO could lead to issuance of enforcement notice by the Privacy Commissioner or even constitute an offence punishable by fine and imprisonment. The Group maintains various internal policies and procedures as well as regular reviews, training and audits to ensure that personal data is properly handled and managed with due care and in accordance with the legal requirements. For effective communications with the regulator and also for complying with the requirement in GDPR, a Group Privacy Compliance Officer has been appointed to monitor all works in relation to data privacy compliance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

A separate ESG report for 2018 will be published on the websites of the Company and Hong Kong Exchanges and Clearing Limited in due course in compliance with the ESG Reporting Guide as set out in Appendix 27 to the Listing Rules.

RESULTS, APPROPRIATIONS AND DISTRIBUTIONS

The results of the Group for the year ended December 31, 2018 are set out in the consolidated income statement of HKT Trust and of HKT Limited on page 94.

The results of the Trustee-Manager for the year ended December 31, 2018 are set out in the income statement of HKT Management Limited on page 190.

An interim distribution/dividend of 29.12 HK cents per share stapled unit of HKT Trust and the Company (the "Share Stapled Unit")/ordinary share of the Company for the six months ended June 30, 2018 was paid to holders of Share Stapled Units/shareholder of the Company in September 2018.

The Trustee-Manager Board has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 39.17 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the Trust Deed (as defined below)), in respect of the year ended December 31, 2018 (and in order to enable the HKT Trust to pay that distribution, the Company Board has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 39.17 HK cents per ordinary share, in respect of the same period), subject to the approval of unitholders of the HKT Trust and of shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and of shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM").

The Trustee-Manager Board does not recommend the payment of a final dividend for the year ended December 31, 2018 to CAS Holding No. 1 Limited, the sole member of the Trustee-Manager.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 187.

FIXED ASSETS

Details of movements in the Group's property, plant and equipment, and interests in leasehold land during the year are set out in notes 17 and 19 respectively to the HKT Trust and HKT Limited consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings are set out in note 29 to the HKT Trust and HKT Limited consolidated financial statements.

SHARE STAPLED UNITS/SHARES ISSUED

There were no new Share Stapled Units/shares of the Company issued during the year ended December 31, 2018. Details of the share capital of the Company for the year ended December 31, 2018 are set out in note 32 to the HKT Trust and HKT Limited consolidated financial statements.

There were no new shares of the Trustee-Manager issued during the year ended December 31, 2018. Details of the share capital of the Trustee-Manager for the year ended December 31, 2018 are set out in note 7 to the financial statements of the Trustee-Manager.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in notes 32 and 33 respectively to the HKT Trust and HKT Limited consolidated financial statements.

The statement of changes in equity of HKT Management Limited during the year is set out on page 193.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2018, less than 30% of the Group's revenue from sales of goods or rendering of services was attributable to the Group's five largest customers, and less than 30% of the Group's purchases were attributable to the Group's five largest suppliers.

DIRECTORS

As at the date of this report, the directors of the Company (the "Company Directors") and the directors of the Trustee-Manager (the "Trustee-Manager Directors") (the Company Directors and the Trustee-Manager Directors collectively referred to as the "Directors") are:

Executive Directors

Li Tzar Kai, Richard *(Executive Chairman)*
Hui Hon Hing, Susanna *(Group Managing Director)*

Non-Executive Directors

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

Independent Non-Executive Directors

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

During the year ended December 31, 2018 and up to the date of this report, the following changes were made to the compositions of the Trustee-Manager Board and the Company Board:

(1) Alexander Anthony Arena retired as the Group Managing Director and Executive Director with effect from the end of August 31, 2018;

(2) Hui Hon Hing, Susanna was appointed as the Group Managing Director with effect from September 1, 2018;

(3) Lu Yimin resigned as a Non-Executive Director with effect from September 18, 2018; and

(4) Zhu Kebing was appointed as a Non-Executive Director with effect from September 18, 2018.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

With respect to Aman Mehta, on February 15, 2013, Pacific Century Regional Developments Limited ("PCRD", a substantial shareholder of PCCW) announced the execution of a term sheet between PCRD Services Pte Ltd ("PCRD Services", a wholly-owned subsidiary of PCRD) and, amongst the others, KSH Distriparks Private Limited ("KSH Distriparks"), Pasha Ventures Private Limited ("Pasha Ventures"), Aman Mehta (an independent non-executive Director) and Akash Mehta (the adult son of Aman Mehta) (together, the "Mehta Family") and Sky Advance Associates Limited ("Sky Advance", a company controlled by Akash Mehta) in relation to a proposed restructuring (the "Restructuring") of their respective interests in Pasha Ventures and KSH Distriparks by way of a scheme of amalgamation. As of March 11, 2012, PCRD Services, Aman Mehta and Akash Mehta held 74%, 21% and 5% of the paid up issued equity capital of Pasha Ventures respectively. KSH Distriparks is an Indian private limited logistics company with an inland container depot located in Pune, India and owned at that time as to 25.94% and 5.19% respectively by PCRD Services and Sky Advance. As a result of the Restructuring, Pasha Ventures was amalgamated with KSH Distriparks and Pasha Ventures ceased to be a subsidiary of PCRD and was dissolved in June 2013. Accordingly, the shareholdings of PCRD Services, Sky Advance and the Mehta Family in KSH Distriparks were approximately 49.87%, 2.61% and 12.94% respectively. Pursuant to a scheme of demerger filed with, and sanctioned by, the High Court at Bombay, KSH Infra Private Limited ("KSH Infra"), a wholly-owned subsidiary of KSH Distriparks was demerged from KSH Distriparks with effect from January 31, 2016 (the "Demerger") with KSH Infra shareholders holding the same percentage shareholdings in the share capital of KSH Infra as those percentage shareholdings in KSH Distriparks at the time of the Demerger. As at December 31, 2018, PCRD Services, Sky Advance and the Mehta Family's shareholdings in both KSH Distriparks and KSH Infra (collectively referred to as "KSH") were approximately 49.87%, 2.61% and 7.72% respectively. Aman Mehta is a passive investor in KSH and does not hold any directorship in KSH. Save as disclosed above, Aman Mehta is not in any way connected to PCRD, PCRD Services, PCCW, the Company or the Trustee-Manager.

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

DIRECTORS' SERVICE CONTRACTS

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

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

As at December 31, 2018, the Directors, the chief executives of the Company and the Trustee-Manager (collectively referred to as the "Chief Executives") and their respective close associates had the following interests or short positions in the Share Stapled Units and underlying Share Stapled Units, and the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register(s) required to be kept under Section 352 of the SFO or as otherwise notified to the Company, the Trustee-Manager and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules:

1. Interests in HKT Trust and HKT Limited

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

Name of Director/Chief Executive	Number of Share Stapled Units held Personal interests	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))*	158,764,423 *(Note 1(b))*	225,012,037	2.97%
Hui Hon Hing, Susanna	3,049,620	–	629,253 *(Note 2)*	3,678,873	0.05%
Peter Anthony Allen *(Note 3)*	21,530	–	–	21,530	0.0003%
Srinivas Bangalore Gangaiah	112,095	–	95,744 *(Note 4)*	207,839	0.003%

Each Share Stapled Unit confers an interest in:

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

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

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

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

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

Notes:

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

   (b) These interests represented:

   (i) a deemed interest in 13,159,619 Share Stapled Units held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 13,159,619 Share Stapled Units held by PCGH; and

   (ii) a deemed interest in 145,604,804 Share Stapled Units held by PCRD, a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 88.58% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 145,604,804 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.06% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard.

2. These interests represented awards made to Hui Hon Hing, Susanna which were subject to certain vesting conditions pursuant to the relevant award schemes of the Company and PCCW, namely the HKT Share Stapled Units Purchase Scheme and the Purchase Scheme. Details of the HKT Share Stapled Units Purchase Scheme are set out in the section below headed "**Share Stapled Units Award Schemes**".

3. As disclosed in the previous annual and interim reports of HKT Trust and HKT Limited, a private company owned by Li Tzar Kai, Richard has provided an interest-free loan facility not exceeding the amount of S$25,000,000 (equivalent to approximately HK$148,000,000) to Peter A. Allen at his request and for personal reasons. The loan is repayable upon written request by the said private company giving six months' prior notice. This private arrangement is not connected with and does not conflict with Peter A. Allen's duties at HKT Trust and HKT Limited.

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

2. Interests in the Associated Corporations of the Company

A. PCCW (the holding company of the HKT Trust and the Company)

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

	Number of ordinary shares of PCCW held				
Name of Director/Chief Executive	Personal interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of shares of PCCW in issue
Li Tzar Kai, Richard	–	307,694,369 *(Note 1(a))*	1,928,842,224 *(Note 1(b))*	2,236,536,593	28.97%
Hui Hon Hing, Susanna	5,397,585	–	1,367,629 *(Note 2)*	6,765,214	0.09%
Peter Anthony Allen	272,208	–	–	272,208	0.004%
Srinivas Bangalore Gangaiah	782,138	–	2,963,665 *(Note 2)*	3,745,803	0.05%

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

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

A. PCCW (the holding company of the HKT Trust and the Company) *(continued)*

Notes:

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

   (b) These interests represented:

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

   (ii) a deemed interest in 1,753,529,954 shares of PCCW held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,753,529,954 shares of PCCW held by PCRD.

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

B. PCPD Capital Limited (an indirect subsidiary of PCCW)

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 the Chief Executives:

Name of Director/Chief Executive	Principal amount of the 2022 Bonds held (US$) Personal interests	Corporate interests	Other interests	Total
Li Tzar Kai, Richard	–	70,000,000 *(Note 1)*	–	70,000,000
Frances Waikwun Wong	–	–	500,000 *(Note 2)*	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 by Frances Waikwun Wong in the capacity of the founder of a discretionary trust.

C. Silvery Sky Holdings Limited (an indirect subsidiary of PCCW)

Radiant Talent Holdings Limited ("RTH", an indirect wholly-owned subsidiary of CSI Properties Limited ("CSI")) entered into a sale and purchase agreement with Silvery Sky Holdings Limited ("SSH", an indirect wholly-owned subsidiary of Pacific Century Premium Developments Limited) and CSI on January 15, 2018 ("SPA") and pursuant to which, one non-voting participating share of SSH was allotted and issued to RTH credited as fully paid up at an issue price of US$1.00 as part of the consideration paid to RTH on completion of the SPA which took place on March 23, 2018. Chung Cho Yee, Mico is a controlling shareholder and director of CSI.

Save as disclosed in the foregoing, as at December 31, 2018, none of the Directors or the Chief Executives or their respective close associates had any interests or short positions in any Share Stapled Units or underlying Share Stapled Units or in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register(s) required to be kept under Section 352 of the SFO or as otherwise notified to the Company, the Trustee-Manager and the Stock Exchange pursuant to the Model Code of the Listing Rules.

SHARE STAPLED UNITS OPTION SCHEME

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

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

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

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

(ii) Subject to the further limitation in (i) above, as required by the Listing Rules, the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and the Company must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 unless the approval of holders of Share Stapled Units has been obtained.

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

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

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

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

SHARE STAPLED UNITS OPTION SCHEME *(CONTINUED)*

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

(7) The subscription price for Share Stapled Units in respect of any particular option shall not be less than the highest of (i) the closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet for the 5 business days immediately preceding the date of grant; and (iii) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.

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

No Share Stapled Unit options have been granted under the 2011-2021 Option Scheme since its adoption and up to and including December 31, 2018.

SHARE STAPLED UNITS AWARD SCHEMES

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

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

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

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

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

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

SHARE STAPLED UNITS AWARD SCHEMES *(CONTINUED)*

In respect of the HKT Share Stapled Units Purchase Scheme, the Approving Body shall either (i) set aside a sum of money; or (ii) determine a number of Share Stapled Units which it wishes to be the subject of a bonus award or set aside certain Share Stapled Units. Where a sum of money has been set aside (or a number of Share Stapled Units has been determined) by the Approving Body, it shall pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Share Stapled Units from the HKT Limited Group's resources, and the Trustee will then apply the same towards the purchase of the relevant Share Stapled Units on the Stock Exchange pursuant to the trust deed.

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

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

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

During the year ended December 31, 2018, an aggregate of 2,754,178 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 619,673 and 268,525 Share Stapled Units made respectively to Alexander Anthony Arena (who retired as Group Managing Director and Executive Director of the Company and the Trustee-Manager during the year) and Hui Hon Hing, Susanna. Additionally, 108,734 Share Stapled Units have lapsed and/or been forfeited and 3,127,542 Share Stapled Units have vested during the year.

As at December 31, 2018 and the date of this annual report, an aggregate of 2,907,464 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested, which represents approximately 0.04% of the total number of Share Stapled Units in issue as at the date of this annual report. No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2018.

SHARE STAPLED UNITS AWARD SCHEMES *(CONTINUED)*

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

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

EQUITY-LINKED AGREEMENTS

Details of the 2011-2021 Option Scheme adopted by the HKT Trust and the Company are set out in the section above headed "**Share Stapled Units Option Scheme**" and note 31(b) to the HKT Trust and HKT Limited consolidated financial statements.

Details of the Share Stapled Units Award Schemes adopted by the Company are set out in the section above headed "**Share Stapled Units Award Schemes**" and note 31(b) to the HKT Trust and HKT Limited consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL HOLDERS OF SHARE STAPLED UNITS

As at December 31, 2018, the following persons (other than Directors or Chief Executives) were substantial holders of Share Stapled Units, and of ordinary shares and preference shares in the Company, and had interests or short positions in the Share Stapled Units and underlying Share Stapled Units, and in the shares and underlying shares of the Company as recorded in the register(s) required to be kept under Section 336 of the SFO:

Name	Capacity	Number of Share Stapled Units held	Approximate percentage of the total number of Share Stapled Units in issue	*Note*
PCCW	Interest in controlled entity	3,934,967,681	51.97%	1
CAS Holding No. 1 Limited	Beneficial interest	3,934,967,681	51.97%	

Each Share Stapled Unit confers an interest in:

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

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

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

Notes:

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

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

Save as disclosed above in this section, the Trustee-Manager and the Company have not been notified of any other persons (other than Directors or Chief Executives) who had an interest or a short position in the Share Stapled Units or underlying Share Stapled Units, or in the shares, underlying shares or debentures of the Company as recorded in the register(s) required to be kept under Section 336 of the SFO as at December 31, 2018.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Details of the continuing connected transactions and significant related party transactions are disclosed in this report and in note 7 to the HKT Trust and HKT Limited consolidated financial statements, as well as in note 4 to the Trustee-Manager's financial statements.

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

MANAGEMENT CONTRACTS

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2018, the interests of the Directors in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Li Tzar Kai, Richard

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

Lu Yimin, Li Fushen and Zhu Kebing

Lu Yimin (who resigned as a Director during the year) was an executive director and President of China Unicom (Hong Kong) Limited ("Unicom UK"). He was also the President and Vice Chairman of China United Network Communications Group Company Limited ("Unicom"), director and President of China United Network Communications Limited ("Unicom A-Share"), and director and President of China United Network Communications Corporation Limited ("CUCL").

Li Fushen is an executive director of Unicom HK. He is also a director of Unicom, Unicom A-Share and CUCL. He was the Senior Vice President and Chief Financial Officer of Unicom HK, Vice President and Chief Accountant of Unicom, and Senior Vice President of Unicom A-Share.

Zhu Kebing is an executive director and Chief Financial Officer of Unicom HK, the Chief Accountant of Unicom, the Chief Financial Officer and Board Secretary of Unicom A-Share, and a director and the Chief Financial Officer of CUCL.

Unicom HK is a company listed on the New York Stock Exchange and the main board of the Stock Exchange. Unicom is the ultimate parent company of Unicom HK and Unicom A-Share is a shareholder of Unicom HK. CUCL is a subsidiary of Unicom HK. Unicom A-Share is a company listed on the Shanghai Stock Exchange. Save for Lu Yimin, Li Fushen and Zhu Kebing, each of these companies has its own management team separate from the HKT Limited Group. These companies are engaged in telecommunications business and other related businesses and compete with certain aspects of the businesses of the HKT Limited Group.

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

PERMITTED INDEMNITY

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

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

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

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

DONATIONS

During the year, the Group made donations of approximately HK$1,100,000 for charitable and other purposes (2017: HK$257,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

During the year ended December 31, 2018, none of the HKT Trust (including the Trustee-Manager), the Company or the Company's subsidiaries purchased, sold or redeemed any Share Stapled Units.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2018, members of the HKT Limited Group entered into continuing connected transactions (as defined in the Listing Rules) under various agreements as set out below with certain members of PCCW and its subsidiaries (excluding the HKT Limited Group) (collectively, the "PCCW Group") for operational needs. These continuing connected transaction agreements will expire on December 31, 2019.

PCCW is the controlling holder of the Share Stapled Units in issue and therefore a connected person (as defined in the Listing Rules) of the HKT Trust and the Company. It is considered that the entering into of the continuing connected transaction agreements with the PCCW Group will enable the HKT Limited Group to meet the demand of the continuing growth and development of its businesses and operations, help to achieve business continuity and efficiency, to minimize any potential disruption to the daily operation of the HKT Limited Group, as well as to further strengthen the HKT Limited Group's position as a premier telecommunications service provider in Hong Kong.

The Trustee-Manager and the Company have complied with the applicable requirements under Chapter 14A of the Listing Rules with respect to the below continuing connected transactions during the year.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Products and services and floor space supplied by the HKT Limited Group to PCCW Media Holdings Limited (formerly known as HKT Media Holdings Limited) and its subsidiaries (collectively the "Media Group")

(1) Provision of carriage services

On December 23, 2016, Hong Kong Telecommunications (HKT) Limited ("HK Telecom"), an indirect wholly-owned subsidiary of the Company, and PCCW Media Limited ("PCCW Media"), an indirect wholly-owned subsidiary of PCCW, entered into a renewal agreement on substantially the same terms as the existing carriage services agreement, as amended, pursuant to which HK Telecom has agreed to provide or procure the provision of carriage services to the Media Group to facilitate the Media Group's delivery of its pay television, free TV and other services to its customers.

(2) Provision of marketing and sales services

On December 23, 2016, HK Telecom and PCCW Media entered into a renewal agreement on substantially the same terms as the existing marketing and sales services agreement, as amended, pursuant to which HK Telecom has agreed to market and sell Media Group products and services through the HKT Limited Group's direct marketing staff, front-line (i.e. on the street) sales teams, shops and via its call centres; and to provide a unified call-centre support service. This agreement is the reciprocal arrangement of the agreement referred to in paragraph (7) below, on like terms, governing sales by the Media Group's dedicated sales staff of the HKT Limited Group's products and services.

(3) Provision of internal (specialist telecom) services

On December 23, 2016, HK Telecom and PCCW Media entered into a renewal agreement on substantially the same terms as the existing internal (specialist telecom) services agreement, as amended, pursuant to which HK Telecom has agreed to procure that relevant members of the HKT Limited Group provide to the Media Group a range of specialized support services that are integral to the operation of the Media Group's business.

(4) Provision of customer premises equipment (CPE) solutions and networking services

On December 14, 2017, HK Telecom and PCCW Media entered into a customer premises equipment (CPE) services agreement, pursuant to which HK Telecom has agreed to provide customer premises equipment and solutions, network connectivity relocation and set-up and other related services to Media Group so as to meet demand from Media Group for its plan of ongoing infrastructure upgrade and expansion. In particular, this covers PCCW Media's office relocation project that requires set-up of relevant equipment and facilities, provision of new fixed and broadband lines and IT infrastructure set-up (inclusive of cable networks and security systems) by the HKT Limited Group.

(5) Licensed access to floor space

Under the licence agreement renewed on December 23, 2016 on substantially the same terms as the existing licence agreement, PCCW Media has been afforded certain limited access rights to floor space for it and members of the Media Group at a number of premises of PCCW-HKT Telephone Limited ("HKTC", an indirect wholly-owned subsidiary of PCCW) ("HKTC's Premises"). Pursuant to a licence agreement signed between HK Telecom and HKTC, HKTC granted to HK Telecom a licence to, among other things, install, store, operate and maintain equipment, machinery, chattels and installations at HKTC's Premises. HKTC continues to meet and defray all costs, expenses and outgoings of HKTC's Premises but HK Telecom is responsible for reimbursing HKTC the outgoings on a periodic basis. HKTC is also required to pay the amount of any income or profit received or to be received by HKTC to HK Telecom in respect of HKTC's Premises. Accordingly, the licence fees paid by the Media Group are passed on by HKTC to HK Telecom pursuant to the aforesaid arrangement. In effect, therefore, these licensing arrangements are akin to direct arrangements between HK Telecom and the Media Group.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Products and services supplied by the Media Group to the HKT Limited Group

(6) Provision of service and product

On December 23, 2016, HK Telecom and PCCW Media entered into a renewal agreement on substantially the same terms as the existing service and product provision agreement, as amended, comprising two aspects:

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

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

(7) Provision of marketing and sales services

On December 23, 2016, HK Telecom and PCCW Media entered into a renewal agreement on substantially the same terms as the existing marketing and sales services agreement, as amended, which represents the reciprocal arrangement to that provided for in the agreement described in paragraph (2) above. By this agreement, PCCW Media agrees to procure that relevant members of the Media Group will market the products and services of the HKT Limited Group.

(8) Content provision arrangements

On December 23, 2016, HK Telecom and PCCW Media entered into a renewal agreement on substantially the same terms as the existing media content services agreement, as amended, pursuant to which PCCW Media has a first right of supply and agreed to supply, procure the supply of or provide content management and production support services to the HKT Limited Group for distribution through its various platforms including eye and mobile platforms or other platforms.

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

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

On December 23, 2016, HK Telecom and PCCW Solutions Limited ("PCCW Solutions"), an indirect wholly-owned subsidiary of PCCW, entered into a renewal agreement on substantially the same terms as the existing managed wavelength service agreement whereby HK Telecom has agreed to provide certain connectivity services to PCCW Solutions, linking the Solutions Group's data centre(s) in Hong Kong and certain designated sites based on an agreed bandwidth capacity and in accordance with other agreed services levels.

On December 23, 2016, HK Telecom and PCCW Solutions also entered into a renewal agreement on substantially the same terms as the existing telecommunications and other miscellaneous services agreement (as subsequently amended on December 14, 2017) whereby HK Telecom and its specified affiliates in the HKT Limited Group have agreed to provide certain agreed telecommunications and related services to the Solutions Group on normal commercial terms.

(10) Licensed access to floor space

Under the licence agreement as renewed on December 23, 2016 on substantially the same terms as the existing licence agreement, PCCW Solutions has been afforded certain limited access rights to floor space for it and members of the Solutions Group at a number of HKTC's Premises. Pursuant to a licence agreement signed between HK Telecom and HKTC, HKTC granted to HK Telecom a licence to, among other things, install, store, operate and maintain equipment, machinery, chattels and installations at HKTC's Premises. HKTC continues to meet and defray all costs, expenses and outgoings of HKTC's Premises but HK Telecom is responsible for reimbursing HKTC the outgoings on a periodic basis. HKTC is also required to pay the amount of any income or profit received or to be received by HKTC to HK Telecom in respect of HKTC's Premises. Accordingly, the licence fees paid by the Solutions Group are passed on by HKTC to HK Telecom pursuant to the aforesaid arrangement. In effect, therefore, these licensing arrangements are akin to direct arrangements between HK Telecom and the Solutions Group.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Solutions Group to the HKT Limited Group

(11) **Provision of information technology, logistic and other contractor services**

On December 23, 2016, HK Telecom and PCCW Solutions entered into a consolidated renewal agreement for information technology, logistic and other contractor services on substantially the same terms as the existing agreements, as amended, whereby PCCW Solutions and/or its affiliates have agreed to provide certain solutions services (e.g. bureau services, application management services, system development services, business processing, order fulfillment and logistical services) to the HKT Limited Group.

(12) **Sub-contracting agreement**

On December 23, 2016, PCCW (Macau), Limitada ("PCCW Macau"), a company within the HKT Limited Group, and Pacific Century CyberWorks Solutions (Macau) Limited ("PCCS"), an indirect wholly-owned subsidiary of PCCW, entered into a renewal agreement on substantially the same terms as the existing sub-contracting agreement, as amended. PCCW Macau has contracted with various third parties for the provision of solutions services with various operators in Macau such as information technology related systems within hotels and casinos. Rather than performing the work itself, PCCW Macau or its affiliates have sub-contracted the work to PCCS or its affiliates. Accordingly, the work is carried out by PCCS or its affiliates and all fees received in respect of the work are passed on by PCCW Macau to PCCS after PCCW Macau has deducted certain sub-contracting fees. Where appropriate, works for other places than Macau may also be subcontracted.

Other transactions between the HKT Limited Group and the PCCW Group

(13) **Provision of corporate shared services**

On December 23, 2016, HKT Services Limited ("HKT Services"), a company within the HKT Limited Group, and PCCW Services Limited ("PCCW Services"), a direct wholly-owned subsidiary of PCCW, entered into a renewal agreement on substantially the same terms as the existing shared services agreement, as amended, pursuant to which HKT Services and its affiliates have agreed to provide certain members of the PCCW Group a range of corporate support services that are integral to the operation of both groups, including managerial support.

(14) **Provision of marketing and promotion services**

On December 23, 2016, HK Telecom and PCCW-HKT Limited, an indirect wholly-owned subsidiary of PCCW, entered into a renewal agreement on substantially the same terms as the existing marketing and promotion services agreement, as amended, pursuant to which HK Telecom has agreed to provide marketing and promotion services to members of the PCCW Group for the marketing and promotion of the PCCW Group's products and services.

The approximate aggregate value and the annual cap for each category of continuing connected transactions as described in paragraphs (1) to (14) above for the financial year ended December 31, 2018 are set out below:

Agreement/Service description	Approximate aggregate values for the financial year ended December 31, 2018 HK$'000	Annual caps for the financial year ended December 31, 2018 HK$'000
Products and services and floor space supplied by the HKT Limited Group to the Media Group		
(1) Provision of carriage services	154,354	456,900
(2) Provision of marketing and sales services	233,256	345,400
(3) Provision of internal (specialist telecom) services	27,388	28,400
(4) Provision of customer premises equipment (CPE) solutions and networking services	113,031	120,000
(5) Licensed access to floor space	3,630	3,700

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Agreement/Service description	Approximate aggregate values for the financial year ended December 31, 2018 HK$'000	Annual caps for the financial year ended December 31, 2018 HK$'000
Products and services supplied by the Media Group to the HKT Limited Group		
(6) Provision of service and product	772,147	1,048,400
(7) Provision of marketing and sales services	33,437	122,100
(8) Content provision arrangements	502,630	514,100
Services and floor space supplied by the HKT Limited Group to the Solutions Group		
(9) Provision of managed services and other telecommunications related services	1,023,900	1,024,000
(10) Licensed access to floor space	8,200	8,200
Services supplied by the Solutions Group to the HKT Limited Group		
(11) Provision of information technology, logistic and other contractor services	1,454,400	1,456,800
(12) (a) Contracted service cost from PCCW Macau to PCCS	32,700	150,000
(b) Sub-contracting fees from PCCS to PCCW Macau	1,100	7,500
Other transactions between the HKT Limited Group and the PCCW Group		
(13) Provision of corporate shared services	184,485	269,800
(14) Provision of marketing and promotion services	25,530	154,900

Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the continuing connected transactions described in paragraphs (1) to (14) above entered into between the HKT Limited Group and the PCCW Group for the year ended December 31, 2018 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the external auditor's letter has been provided by the Trustee-Manager and the Company jointly to the Stock Exchange.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Annual Review of Continuing Connected Transactions *(continued)*

The Trustee-Manager Board and the Company Board, including the independent non-executive Directors, have reviewed and confirmed that the continuing connected transactions described in paragraphs (1) to (14) above were entered into:

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

(ii) on normal commercial terms or better; and

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

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

RELATED PARTY TRANSACTIONS

The significant related party transactions which were undertaken in the normal course of business are set out in note 7 to the HKT Trust and HKT Limited consolidated financial statements and in note 4 to the Trustee-Manager's financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "**Continuing Connected Transactions**") under the Listing Rules, these transactions are exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

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

AUDITOR

The HKT Trust and HKT Limited consolidated financial statements for the financial year ended December 31, 2018 and the financial statements of the Trustee-Manager for the financial year ended December 31, 2018 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the HKT Trust, the Company and the Trustee-Manager is to be proposed at the forthcoming AGM.

By order of the boards of
HKT Management Limited and
HKT Limited

Bernadette M. Lomas
Group General Counsel and Company Secretary
Hong Kong, February 22, 2019

pwc

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of HKT Trust, HKT Limited (the "Company") and its subsidiaries (together the "Group") and of HKT Limited and its subsidiaries (the "HKT Limited Group") set out on pages 94 to 186 (together referred to as the "HKT Trust and HKT Limited consolidated financial statements"). As explained in note 1 to the HKT Trust and HKT Limited consolidated financial statements, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together. The HKT Trust and HKT Limited consolidated financial statements together comprise:

- the consolidated statement of financial position of the Group and of the HKT Limited Group as at December 31, 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of principal accounting policies.

Our opinion

In our opinion, the HKT Trust and HKT Limited consolidated financial statements give a true and fair view of the consolidated financial position of the Group and of the HKT Limited Group as at December 31, 2018, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

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

Key Audit Matters

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

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

- Revenue recognition
- Impairment assessments for cash generating units ("CGUs") containing goodwill
- Income taxes
- Adoption of HKFRS 16 – Leases

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *Refer to notes 5, 8 and 9 to the HKT Trust and HKT Limited consolidated financial statements.*	
The Group and the HKT Limited Group recognized revenue of HK$35,187 million for the year ended December 31, 2018, including external revenue from Telecommunications Services ("TSS") Business and Mobile Business of HK$21,128 million and HK$13,825 million, respectively. The Group and HKT Limited Group adopted HKFRS 15 – Revenue from Contracts with Customers on January 1, 2018 and elected to apply the new standard retrospectively. This adoption resulted in a number of accounting policy changes and the restatement of comparative figures as disclosed in note 5 to the Group and the HKT Limited Group consolidated financial statements. The Group and the HKT Limited Group enter into bundled sale contracts with customers in which, apart from the provision of telecommunications services, the Group and the HKT Limited Group have certain other performance obligations to customers such as the delivery of handsets, equipment and gifts. Significant management's judgements were needed to appropriately identify the number of performance obligations included in the multiple-element arrangements, to estimate the stand-alone selling price of each performance obligation, and to allocate the total transaction prices from customers to each performance obligation of multiple-element arrangements based on its relative stand-alone selling price. Significant effort was spent auditing the revenue recognized by TSS Business and Mobile Business due to the large volume of transactions, the complexity of the systems used, the significant judgements involved in the identification of performance obligations and the estimation of the stand-alone selling price of each performance obligation to allocate the total transaction prices to multiple-element arrangements.	Our procedures in relation to the judgements and estimates used in the recognition of revenue included: • Obtaining an understanding of and evaluating the internal controls, including new processes and controls in respect of the application of HKFRS 15 and the IT environment, and validating key controls in place on revenue recognition; • Assessing the appropriateness of management's assessments on the identification of performance obligations based on the contractual agreements and our knowledge of the business; • Assessing the reasonableness of management's judgements and estimates used to determine the stand-alone selling price of each performance obligation and to allocate revenue to multiple-element arrangements with reference to observable market data; • Testing, on a sample basis, the revenue transactions by tracing the transactions from the billing systems to supporting documents, such as underlying invoices, contractual agreements and evidence of cash receipts; and • Testing, on a sample basis, the calculation and allocation of total transaction prices to each performance obligation of multiple-element arrangements and the related journal entries posting. We found the judgements and estimates used in the recognition of revenue to be supported by the available evidence.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments for CGUs containing goodwill *Refer to note 20 to the HKT Trust and HKT Limited consolidated financial statements.*	
As at December 31, 2018, the Group and the HKT Limited Group had goodwill amounting to HK$49,805 million. Goodwill was allocated to CGUs, and the recoverable amount of each CGU was determined by management based on value-in-use calculation using cash flow projections. In carrying out the impairment assessments, significant management's judgements were used to appropriately identify CGUs and to determine the key assumptions, including revenue growth rates, EBITDA growth rates, terminal growth rates and discount rates used in the value-in-use calculations. Management has concluded that there is no impairment in respect of the goodwill in the current year.	Our procedures in relation to the judgements and assumptions used in the impairment assessments included: • Assessing the reasonableness of management's identification of CGUs based on the Group's and the HKT Limited Group's accounting policies and our understanding of the Group's and the HKT Limited Group's businesses; • Assessing the value-in-use calculation methodology in accordance with HKAS 36 "Impairment of Assets"; • Assessing the reasonableness of the key assumptions, including revenue growth rates, EBITDA growth rates, terminal growth rates and discount rates, based on our knowledge of the business and the observable market data of the industry; • Comparing the data in the cash flow projections to the relevant CGUs' historical performance, financial budgets and forecasts, and assessing the reasonableness of the cash flow projections based on the key assumptions; and • Performing sensitivity analyses on the key assumptions to which the recoverable amounts are the most sensitive. We found the judgements and assumptions used in the impairment assessments to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Income taxes *Refer to notes 14 and 34 to the HKT Trust and HKT Limited consolidated financial statements.* The Group and the HKT Limited Group operate across several jurisdictions and are subject to Hong Kong and overseas taxes. From time to time, there are queries raised by relevant tax authorities in respect of the tax treatments of certain matters. Significant judgements were used to estimate the outcome of these matters and the appropriate amount of current income tax liabilities. The Group and the HKT Limited Group recognized deferred income tax assets of HK$485 million related to available tax losses as at December 31, 2018. In assessing the amount of deferred income tax assets to be recognized, the Group and the HKT Limited Group have considered the future taxable profits and tax planning strategies.	Our procedures in relation to the judgements and assumptions used in the recognition of current income tax provisions and deferred income tax assets included: • Enquiring with management and assessing management's basis used to compute the current income tax liabilities and the estimated outcome of queries raised by relevant tax authorities; • Assessing the appropriateness of the current income tax computation for the current year, according to the tax rules in the respective jurisdictions; • Testing, on a sample basis, available tax losses to the relevant financial statements and tax assessments; and • Assessing the reasonableness of the recognition of deferred income tax assets and the future taxable profits by comparing the data in the future taxable profits projections to the historical performance and considering the reasonableness of the key assumptions, including revenue growth rates and EBITDA growth rates, based on our knowledge of the business and the observable market data of the industry. We found the judgements and assumptions used in the recognition of current income tax provisions and deferred income tax assets to be supported by the available evidence.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Adoption of HKFRS 16 – Leases *Refer to note 5 to the HKT Trust and HKT Limited consolidated financial statements.* The Group and HKT Limited Group early adopted HKFRS 16 – Leases ("HKFRS 16") on January 1, 2018 and elected to apply the new standard retrospectively. The full retrospective approach required the Group and the HKT Limited Group to determine the carrying amounts of the leases in existence at the earliest comparative period as if those leases had always been accounted for applying HKFRS 16 and to restate comparative information. The lease liabilities were initially measured by discounting forecast lease payments relating to the right to use the assets during the lease terms, which involved significant judgements and estimates in determining the discount rates and the lease terms with renewal options or with options to terminate the leases. Significant effort was spent auditing the lease liabilities recognized due to the large volume of leases and the significant judgements and estimates involved in determining the appropriate discount rates and lease terms. As at December 31, 2018, the Group and the HKT Limited Group recognized lease liabilities of HK$3,193 million.	Our procedures in relation to the judgements and estimates used in the recognition of lease liabilities included: • Obtaining an understanding of and evaluating the internal controls, including new processes and controls in respect of the application of HKFRS 16, and validating key controls in place on the identification and recognition of leases; • Assessing the appropriateness of management's assessments on the identification of leases based on the contractual agreements and our knowledge of the business; • Obtaining a summary of leases from management, and testing, on a sample basis, the key terms of each lease including lease terms and lease payments by tracing such information to the underlying lease contracts; • Assessing the judgements and estimates involved in determining the discount rates and the lease terms based on the contractual terms, nature and condition of the assets and our knowledge of the business; and • Testing, on a sample basis, the calculation of the lease liabilities based on lease payments, the discount rates and the expected lease terms. We found the judgements and estimates used in the recognition of lease liabilities to be supported by the available evidence.

Other Information

The directors of HKT Management Limited (the "Trustee-Manager") (in its capacity as the trustee-manager of HKT Trust) and the directors of the Company are responsible for the other information. The other information comprises all of the information included in the HKT Trust and HKT Limited 2018 annual report other than the HKT Trust and HKT Limited consolidated financial statements, the financial statements of HKT Management Limited and our auditor's reports thereon.

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

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the HKT Trust and HKT Limited consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these HKT Trust and HKT Limited consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the HKT Limited Group's internal control.

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

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

Auditor’s Responsibilities for the Audit of the HKT Trust and HKT Limited Consolidated Financial Statements *(continued)*

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Ng Ka Ho.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 22, 2019

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

CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2018

In HK$ million (except for earnings per Share Stapled Unit/share of the Company)	Note(s)	2017 (Restated#)	**2018**
Revenue	8 & 9	33,067	**35,187**
Cost of sales		(15,972)	**(17,980)**
General and administrative expenses		(10,137)	**(9,991)**
Other (losses)/gains, net	10	(145)	**2**
Finance costs, net	12	(1,148)	**(1,350)**
Share of results of associates		(12)	**–**
Share of results of joint ventures		2	**(16)**
Profit before income tax	8 & 11	5,655	**5,852**
Income tax	14	(898)	**(1,010)**
Profit for the year		4,757	**4,842**
Attributable to:			
Holders of Share Stapled Units/shares of the Company		4,745	**4,825**
Non-controlling interests		12	**17**
Profit for the year		4,757	**4,842**
Earnings per Share Stapled Unit/share of the Company			
Basic	16	62.69 cents	**63.73 cents**
Diluted	16	62.66 cents	**63.71 cents**

See note 5 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 101 to 186 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

For the year ended December 31, 2018

In HK$ million	2017 (Restated#)	2018
Profit for the year	4,757	**4,842**
Other comprehensive income/(loss)		
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Exchange differences on translating foreign operations	181	**(73)**
Cash flow hedges:		
– effective portion of changes in fair value	(280)	**(137)**
– transfer from equity to consolidated income statement	(332)	**35**
Costs of hedging	–	**39**
Other comprehensive loss for the year	(431)	**(136)**
Total comprehensive income for the year	4,326	**4,706**
Attributable to:		
Holders of Share Stapled Units/shares of the Company	4,314	**4,689**
Non-controlling interests	12	**17**
Total comprehensive income for the year	4,326	**4,706**

See note 5 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 101 to 186 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

For the year ended December 31, 2018

		2017 (Restated#)		
In HK$ million	Note	Attributable to holders of Share Stapled Units/shares of the Company	Non-controlling interests	Total equity
At January 1, 2017 as originally presented		39,096	63	39,159
Changes in accounting policies	5	(818)	–	(818)
At January 1, 2017 (restated#)		38,278	63	38,341
Total comprehensive income for the year				
Profit for the year		4,745	12	4,757
Other comprehensive income/(loss)				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		181	–	181
Cash flow hedges:				
– effective portion of changes in fair value		(280)	–	(280)
– transfer from equity to consolidated income statement		(332)	–	(332)
Other comprehensive loss		(431)	–	(431)
Total comprehensive income for the year		4,314	12	4,326
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Purchase of Share Stapled Units under the HKT Share Stapled Units Purchase Scheme		(6)	–	(6)
Employee share-based compensation		25	–	25
Distribution/dividend paid in respect of the previous year	15	(2,632)	–	(2,632)
Interim distribution/dividend declared and paid in respect of the current year	15	(2,129)	–	(2,129)
Dividend declared and paid to the non-controlling shareholders of subsidiaries		–	(35)	(35)
Total transactions with equity holders		(4,742)	(35)	(4,777)
At December 31, 2017		37,850	40	37,890

See note 5 for details regarding the restatement as a result of changes in accounting policies.

In HK$ million	Note	2018 Attributable to holders of Share Stapled Units/shares of the Company	Non-controlling interests	Total equity
At December 31, 2017 as originally presented		**39,019**	**40**	**39,059**
Changes in accounting policies	5	**(1,169)**	**–**	**(1,169)**
At December 31, 2017 (restated#) and January 1, 2018		**37,850**	**40**	**37,890**
Total comprehensive income for the year				
Profit for the year		**4,825**	**17**	**4,842**
Other comprehensive (loss)/income				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		**(73)**	**–**	**(73)**
Cash flow hedges:				
– effective portion of changes in fair value		**(137)**	**–**	**(137)**
– transfer from equity to consolidated income statement		**35**	**–**	**35**
Costs of hedging		**39**	**–**	**39**
Other comprehensive loss		**(136)**	**–**	**(136)**
Total comprehensive income for the year		**4,689**	**17**	**4,706**
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Purchase of Share Stapled Units under the HKT Share Stapled Units Purchase Scheme		**(21)**	**–**	**(21)**
Employee share-based compensation		**25**	**–**	**25**
Distribution/dividend paid in respect of the previous year	15	**(2,783)**	**–**	**(2,783)**
Interim distribution/dividend declared and paid in respect of the current year	15	**(2,205)**	**–**	**(2,205)**
Dividend declared and paid to the non-controlling shareholders of subsidiaries		**–**	**(20)**	**(20)**
Total contributions by and distributions to equity holders		**(4,984)**	**(20)**	**(5,004)**
Contribution from a non-controlling shareholder of a subsidiary		**–**	**2**	**2**
Total transactions with equity holders		**(4,984)**	**(18)**	**(5,002)**
At December 31, 2018		**37,555**	**39**	**37,594**

See note 5 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 101 to 186 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

As at December 31, 2018

In HK$ million	Note	As at January 1, 2017 (Restated#)	As at December 31, 2017 (Restated#)	**As at December 31, 2018**
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	17	18,019	19,386	**20,601**
Right-of-use assets	18	2,555	2,220	**2,808**
Interests in leasehold land	19	253	240	**227**
Goodwill	20	49,787	49,814	**49,805**
Intangible assets	21	8,152	7,966	**8,691**
Fulfillment costs		1,378	1,378	**1,336**
Customer acquisition costs		648	611	**632**
Contract assets		349	350	**295**
Interests in associates	22	130	–	**–**
Interests in joint ventures	23	725	720	**678**
Available-for-sale financial assets	24	77	77	**–**
Financial assets at fair value through other comprehensive income	25	–	–	**77**
Financial assets at fair value through profit or loss	26	31	20	**8**
Derivative financial instruments	30	277	223	**148**
Deferred income tax assets	34	317	468	**465**
Other non-current assets		618	842	**1,065**
		83,316	84,315	**86,836**
Current assets				
Inventories	28(a)	707	749	**1,080**
Prepayments, deposits and other current assets		2,790	2,772	**2,033**
Contract assets		771	737	**630**
Trade receivables, net	28(b)	3,035	2,787	**3,727**
Amounts due from related companies	7(c)	96	77	**102**
Financial assets at fair value through profit or loss	26	13	17	**12**
Restricted cash	28(c)	36	51	**88**
Short-term deposits		450	450	**523**
Cash and cash equivalents	36(d)	2,882	3,217	**2,534**
		10,780	10,857	**10,729**
Current liabilities				
Trade payables	28(d)	(2,474)	(1,874)	**(1,787)**
Accruals and other payables		(4,969)	(5,129)	**(4,771)**
Carrier licence fee liabilities	35	(173)	(173)	**(173)**
Amount due to a related company	7(c)	(37)	–	**–**
Amount due to a fellow subsidiary	7(c)	(465)	(969)	**(1,675)**
Advances from customers		(265)	(241)	**(266)**
Contract liabilities		(1,276)	(1,288)	**(1,415)**
Lease liabilities		(1,414)	(1,157)	**(1,293)**
Current income tax liabilities		(797)	(856)	**(761)**
		(11,870)	(11,687)	**(12,141)**

In HK$ million	Note	As at January 1, 2017 (Restated#)	As at December 31, 2017 (Restated#)	**As at December 31, 2018**
Non-current liabilities				
Long-term borrowings	29	(38,193)	(39,146)	**(40,169)**
Derivative financial instruments	30	(14)	(150)	**(152)**
Deferred income tax liabilities	34	(2,713)	(2,989)	**(3,393)**
Carrier licence fee liabilities	35	(544)	(455)	**(357)**
Contract liabilities		(801)	(952)	**(1,010)**
Lease liabilities		(1,200)	(1,307)	**(1,900)**
Other long-term liabilities		(420)	(596)	**(849)**
		(43,885)	(45,595)	**(47,830)**
Net assets		38,341	37,890	**37,594**
CAPITAL AND RESERVES				
Share capital	32(a)	8	8	**8**
Reserves	33	38,270	37,842	**37,547**
Equity attributable to holders of Share Stapled Units/shares of the Company		38,278	37,850	**37,555**
Non-controlling interests	27(b)	63	40	**39**
Total equity		38,341	37,890	**37,594**

Approved and authorized for issue by the boards of directors of HKT Management Limited and HKT Limited (collectively, the "Boards") on February 22, 2019 and signed on behalf of the Boards by

Li Tzar Kai, Richard
Director

Hui Hon Hing, Susanna
Director

See note 5 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 101 to 186 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

For the year ended December 31, 2018

In HK$ million	Note	2017 (Restated#)	**2018**
NET CASH GENERATED FROM OPERATING ACTIVITIES	36(a)	10,261	**10,659**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		4	**3**
Proceeds from disposal of available-for-sale financial assets		6	**–**
Purchases of property, plant and equipment		(2,602)	**(2,536)**
Purchases of intangible assets		(1,244)	**(2,137)**
Net outflow of cash and cash equivalents in respect of business combination	36(c)	–	**(3)**
Investment in a joint venture		–	**(30)**
Loans to associates		(19)	**(12)**
Loans to joint ventures		(130)	**(72)**
Repayment of loan from a joint venture		39	**15**
Cash received from lease receivables		31	**56**
Increase in short-term deposits with maturity more than three months		–	**(73)**
NET CASH USED IN INVESTING ACTIVITIES		(3,915)	**(4,789)**
FINANCING ACTIVITIES			
New borrowings raised, net	36(b)	5,275	**13,616**
Finance costs paid	36(b)	(856)	**(886)**
Repayments of borrowings	36(b)	(4,650)	**(12,543)**
Payment for lease liabilities (including interests)	36(b)	(1,661)	**(1,665)**
Movement in amount due to a fellow subsidiary		665	**(57)**
Contribution from a non-controlling shareholder of a subsidiary		–	**2**
Distributions/dividends paid to holders of Share Stapled Units/shareholders of the Company		(4,759)	**(4,988)**
Dividends paid to non-controlling shareholders of subsidiaries		(35)	**(20)**
NET CASH USED IN FINANCING ACTIVITIES		(6,021)	**(6,541)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		325	**(671)**
Exchange differences		10	**(12)**
CASH AND CASH EQUIVALENTS			
Beginning of year		2,882	**3,217**
End of year	36(d)	3,217	**2,534**

See note 5 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 101 to 186 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

1 BASIS OF PRESENTATION

In accordance with the Trust Deed (as defined below), HKT Trust (the "HKT Trust") and HKT Limited (the "Company") are each required to prepare their own sets of financial statements on a consolidated basis. The HKT Trust consolidated financial statements for the year ended December 31, 2018 comprise the consolidated financial statements of the HKT Trust, HKT Limited and its subsidiaries (together the "Group"), and the Group's interests in associates and joint ventures. The HKT Limited consolidated financial statements for the year ended December 31, 2018 comprise the consolidated financial statements of HKT Limited and its subsidiaries (together the "HKT Limited Group") and the HKT Limited Group's interests in associates and joint ventures, and the Company's statement of financial position.

The HKT Trust controls HKT Limited and the sole activity of the HKT Trust during the year ended December 31, 2018 was investing in HKT Limited. Therefore, the consolidated financial results and financial position that would be presented in the consolidated financial statements of the HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of capital of HKT Limited. The directors of the Trustee-Manager (as defined below) and the directors of the Company believe therefore that it is clearer to present the consolidated financial statements of the HKT Trust and the HKT Limited together. The consolidated financial statements of the HKT Trust and the consolidated financial statements of HKT Limited are presented together to the extent they are identical and are hereinafter referred to as the "HKT Trust and HKT Limited consolidated financial statements".

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity, consolidated statements of cash flows, principal accounting policies and the related explanatory information are common to the HKT Trust and the Company. The HKT Limited consolidated financial statements also include the stand-alone statement of financial position of HKT Limited as shown in note 6, and the relevant explanatory information in note 32 where information specific to the Company are disclosed separately.

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

2 GENERAL INFORMATION

The HKT Trust is constituted by a Hong Kong law governed trust deed and as supplemented, amended or substituted from time to time (the "Trust Deed"), entered into between HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) and the Company. Under the Trust Deed, the Trustee-Manager has been appointed as the trustee and manager of the HKT Trust. The scope of activities of the HKT Trust specified in the Trust Deed is essentially limited to investing in the Company and all the issued and paid-up ordinary shares of the Company are held by the HKT Trust. The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on June 14, 2011. The Company has established a principal place of business in Hong Kong at 39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong and was registered as a non-Hong Kong company. The HKT Limited Group is principally engaged in the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

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

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

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

The HKT Trust and HKT Limited consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which is a collective term for all individual Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). A summary of the principal accounting policies adopted by the Groups is set out below.

b. Basis of preparation of the financial statements

The following new or amended Hong Kong Financial Reporting Standards (the "new HKFRSs") are mandatory for the first time for the financial year beginning January 1, 2018 and the impacts of the adoption are disclosed in note 5.

- 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 Groups' 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 Advance Consideration*
- Annual Improvements to HKFRSs 2014-2016 Cycle published in March 2017 by HKICPA

The Groups have 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 5. The Groups have not early adopted any other new HKFRSs that are not yet effective for the current accounting period, details of which are set out in note 42.

The consolidated financial statements for the year ended December 31, 2018 comprise the financial statements of the Groups, and the Groups' interests in associates and joint ventures.

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

- financial assets at fair value through profit or loss (see note 3(n));
- financial assets at fair value through other comprehensive income (see note 3(n)); and
- derivative financial instruments (see note 3(p)).

As at December 31, 2018, the current liabilities of the Groups exceeded their current assets by approximately HK$1,412 million. Included in the current liabilities were current portion of contract liabilities of HK$1,415 million recognized under HKFRS 15, which will gradually reduce over the terms of the contracts through the satisfaction of performance obligations. Management of the Groups anticipates the net cash inflows from their operations, together with the ability to draw down from available bank loan facilities, would be sufficient to enable the Groups to meet their liabilities as and when they fall due. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

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

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

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

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

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

c. Subsidiaries and non-controlling interests

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

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Groups. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. A subsequent change to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognized in accordance with HKFRS 9 (2014) in the consolidated income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 3(i)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in the consolidated income statement.

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

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

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

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

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

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

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

d. Associates

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

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

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

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

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

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

e. Joint arrangements

The Groups have applied HKFRS 11 to all joint arrangements. Under HKFRS 11, joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

The Groups classified joint arrangements as joint ventures when the Groups have rights to the net assets of the joint arrangement.

Investments in joint ventures are accounted for in the consolidated financial statements using the equity method, as described in note 3(d).

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

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

f. Gaining or losing control

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

g. Property, plant and equipment

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

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

– other items of plant and equipment.

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

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

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

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

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

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

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

h. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Groups determine that the arrangement conveys a right to 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.

i. Assets leased to the Groups

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 Groups. 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 on a straight-line basis over the shorter of the asset's useful life and the lease term.

Assets leased to the Groups 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 Groups, as lessees, exercising an option to terminate the lease.

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

– the amount of the initial measurement of lease liabilities;

– 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.

ii. Assets leased out by the Groups

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Where the Groups lease out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Groups' depreciation policies. Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(o)(ii). Revenue arising from operating leases is recognized in the consolidated income statement in equal installments over the accounting periods covered by the lease term. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned..

Where the Groups lease out assets under finance leases, the present value of lease receipts is recognized as a receivable. Each lease receipt is allocated between the receivable and interest income so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease receipt is recognized in the consolidated income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period.

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

i. Goodwill

Goodwill represents the excess of the cost of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the Groups' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

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

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

j. Intangible assets (other than goodwill)

i. Carrier licences

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

The difference between the discounted value and the total minimum annual fee payments represents the effective cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using the effective interest method.

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

ii. Software

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

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

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

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

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

– the Groups have power to obtain future economic benefits flowing from the underlying resource.

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

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 8 to 10 years.

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

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

iii. Other intangible assets

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

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

Trademarks	20 years
Customer base	1 to 10 years

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

k. 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 Groups 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.

l. Customer acquisition costs

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

m. 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 Groups exceed the total payments received and unconditional rights to contract consideration to date, a contract asset is recognized. If the total payments received and unconditional rights to contract consideration to date exceed the performance obligation fulfilled, a contract liability is recognized. The contract assets are transferred to receivables when the Groups' rights to the contract consideration become unconditional.

n. Investments in debt and equity securities

Classification

The Groups classify their investments in debt and equity securities, other than interests in subsidiaries, associates, and joint arrangements, as:

- those to be measured subsequently at fair value (at either fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVPL")); and

- those to be measured at amortized cost.

The classification depends on the Groups' 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 Groups have made an irrevocable election at the time of initial recognition to account for the equity instrument at FVOCI.

The Groups reclassify debt instruments when and only when their business model for managing those assets changes.

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

n. Investments in debt and equity securities *(continued)*

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Groups commit to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Groups have transferred substantially all the risks and rewards of ownerships.

Initial measurement

At initial recognition, the Groups measure 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.

Subsequent measurement

Debt instruments

Subsequent measurement of debt instruments depends on the Groups' business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Groups classify their 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 the consolidated income statement 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 FVOCI. 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 FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL 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 Groups subsequently measure all equity instruments at fair value. Where the Groups' management has made an irrevocable election at initial recognition 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, any balance within the other comprehensive income for these equity investments is reclassified to retained profits. Dividends from such investments continue to be recognized in the consolidated income statement as other gains/(losses), net when the Groups' 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.

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

o. Impairment of assets

i. Investments in debt instruments and trade and other receivables

The Groups assess on forward looking basis the expected credit losses associated with their debt instruments carried at amortized cost or FVOCI, and trade and other receivables carried at amortized cost.

For investments in debt instruments and other receivables, the Groups consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Groups compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available reasonable and supportive forwarding-looking information. Considerations may include:

– internal credit rating;

– external credit rating (as far as available);

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

– actual or expected significant changes in the operating results of the borrower;

– significant increases in credit risk on other financial instruments of the same borrower; and

– significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the Groups and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is delinquent and in default status when there are unsettled amounts remaining on the account on the day after the invoice due date.

At each reporting date, the Groups measure the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the Groups measure the loss allowance for that financial asset at an amount equal to 12-month expected credit losses.

For trade receivables and contract assets, the Groups apply the simplified approach to providing for expected credit losses, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. When measuring expected credit losses, the Groups consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and possibility that no credit loss occurs.

Financial assets are written off when there is no reasonable expectation of recovery. The Groups categorize a financial asset for write off when a debtor fails to make contractual payments for a period greater than predefined limit. Where loans or receivables have been written off, the Groups continue to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in the consolidated income statement.

ii. Impairment of other assets

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

– property, plant and equipment;

– right-of-use assets;

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

o. Impairment of assets *(continued)*

ii. Impairment of other assets *(continued)*

- interests in leasehold land;
- fulfillment costs;
- customer acquisition costs;
- intangible assets;
- interests in associates and joint ventures; and
- goodwill.

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

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

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

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

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

iii. Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Groups are required to prepare an interim financial report in compliance with HKAS 34 *Interim Financial Reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Groups apply the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 3(o)(i) and 3(o)(ii)).

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

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

p. Derivative financial instruments

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

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

q. Hedging

At inception of the hedge relationship, the Groups document the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Groups document their risk management objective and strategy for undertaking their hedge transactions.

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 Groups designate 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 Groups designate 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 the consolidated income statement.

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

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

r. Inventories

Inventories consist of trading inventories, purchased parts and materials and consumable inventories.

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

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

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

s. Trade and other receivables

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing component, when they are recognized at fair value. The Groups hold trade and other receivables with the objective to collect the contractual cash flows and therefore measure them subsequently at amortized cost using the effective interest method, less loss allowance for expected credit losses (see note 3(o)(i)).

t. Cash and cash equivalents

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

u. Trade and other payables

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

v. Borrowings

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

w. Provisions and contingent liabilities

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

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

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

x. Revenue recognition

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

Local telephony, local data and broadband, international telecommunications and mobile businesses earn revenue primarily by providing access to and usage of the telecommunications network locally and internationally as well as delivering handsets, equipment and gifts, which are considered as separate performance obligations, respectively.

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and rendering of services in the ordinary course of the Groups' activities. Revenue is recognized when the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods or services may be transferred over time or at a point in time.

The Groups often enter into bundled sale contracts with customers in which, apart from provision of telecommunications and other services, the Groups have certain other performance obligations to customers such as delivery of handsets, equipment and gifts. In general, customers are invoiced according to agreed billing schedules set out in the customer contracts. When multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Groups' performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception mainly based on observable retail prices and observable market data 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 stand-alone 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.

For the telecommunications services, revenue is recognized over time based on the output method, either as the service allowance units are used or as time elapses, because it reflects the pattern by which the Groups satisfy the performance obligation through the transfer of services to the customer. For service plan based on usage, where monthly usage exceeds the allowance, the overage usage represents options held by the customer for incremental services and the usage-based fee is recognized when the customer exercises the option. Other telecommunications services income are recognized when services are rendered.

For the sales of the handsets, equipment and gifts, revenue is generally recognized when control passes to the customer, being when the products are delivered to and accepted by the customer. The customer has full direction over the handsets, equipment and gifts and there are no unfulfilled obligations that can affect the customers' acceptance of those goods.

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimate total contract costs for the contract. When the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable. Accumulated experience is used to estimate the variable consideration to the extent that it is highly probable that a significant reversal will not occur, using the expected value method, to be included in the transaction price.

A financing component, if any, might exist when timing of the payment for goods by the customers, which occurs over the contract term, differs from the satisfaction of the performance obligation, which occurs at contract inception upon transfer of goods to the customer. Such financing component is not significant to the Groups.

y. Interest income

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

z. Dividend income

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

aa. Borrowing costs

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

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

aa. Borrowing costs *(continued)*

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

ab. Income tax

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

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

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

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

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

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

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

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

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

ac. Employee benefits

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

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

iii. Share-based payments

PCCW and the Groups operate share option schemes where employees of the Groups (and including directors) are granted options to acquire shares of PCCW ("PCCW Shares") and Share Stapled Units at specified exercise prices. The fair value of the employee services received in exchange for the grant of options to acquire PCCW Shares and Share Stapled Units is recognized as staff costs in the consolidated income statement with a corresponding increase in a capital contribution from members in respect of employee share-based compensation under equity and an employee share-based compensation reserve under equity respectively. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years regarding the options to acquire PCCW Shares and options to acquire Share Stapled Units is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the capital contribution from members in respect of employee share-based compensation under equity and the employee share-based compensation reserve respectively. On vesting date, the amount recognized as staff costs regarding the options to acquire PCCW Shares and options to acquire Share Stapled Units is adjusted to reflect the actual number of options that vests (with a corresponding adjustment to the capital contribution from members in respect of employee share-based compensation under equity and the employee share-based compensation reserve respectively). The equity amount regarding the options to acquire PCCW Shares remains in the capital contribution from members in respect of employee share-based compensation under equity. The equity amount regarding the options to acquire Share Stapled Units is recognized in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expire (when it is released directly to retained profits).

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

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

ac. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

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

Awards under the PCCW Purchase Scheme and the PCCW Subscription Scheme, are accounted for as cash-settled share-based payments. The fair value of the awarded PCCW Shares represents the quoted market price of PCCW Shares purchased from the open market under the PCCW Purchase Scheme and the issue price of PCCW Shares under the PCCW Subscription Scheme are recognized as financial assets at fair value through profit and loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW Shares are recognized as staff costs in the income statement over the respective vesting period with a corresponding obligation being recognized. During the vesting period, the number of awarded PCCW Shares that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the obligation. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded PCCW Shares that vests (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW Shares recognized in the financial assets at fair value through profit and loss is offset with the obligation.

iv. Termination benefits

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

ad. Translation of foreign currencies

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

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

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

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

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

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

ae. Related parties

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

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

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

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

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

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

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

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

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

af. Segment reporting

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

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Groups make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 20 and 38 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Management has also made judgements in applying the Groups' accounting policies. These judgements and other key sources of estimation uncertainty are discussed below:

i. Impairment of assets (other than trade and other receivables)

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

- property, plant and equipment;
- right-of-use assets;
- interests in leasehold land;
- fulfillment costs;
- customer acquisition costs;
- intangible assets;
- interests in associates and joint ventures; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. Impairment tests are performed for CGUs containing goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives annually whether or not there is any indication of impairment. Significant judgement is used to identify CGUs appropriately. An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

ii. Revenue recognition

Under certain arrangements, apart from provision of telecommunications and other services, the Groups have 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 Groups' performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception mainly based on observable retail prices and observable market data 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 stand-alone selling prices. The Groups are required to exercise considerable judgement in relation to estimating the stand-alone selling price.

Contract revenue is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract cost incurred will be recoverable. The Groups are required to exercise judgement in estimating the total contract costs to apply the percentage of completion method for revenue recognition.

iii. Deferred income tax

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

iv. Current income tax

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

v. Lives of property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs

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

The lives are estimated at the time of purchase of these assets or direct costs incurred in fulfilling or acquiring a contract with a customer after considering future technology changes, business developments, the Groups' strategies and expected life of customer contracts. The Groups perform annual reviews to assess the appropriateness of the estimated lives. Such reviews take into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancements in technology. The Groups extend or shorten the lives according to the results of the reviews.

vi. Lease term and discount rate determination

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In determining the discount rate, the Groups are required to exercise considerable judgement in relation to determine the discount rate taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and the effective date of the modification.

5 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 Groups' financial statements.

a. Impacts on the financial statements

As a result of the changes in the Groups' accounting policies, prior year financial statements had to be restated as follows:

In HK$ million (except for earnings per Share Stapled Unit/share of the Company)

Consolidated income statement for the year ended December 31, 2017 (extract)	As originally presented	HKFRS 15 (note 5(b))	HKFRS 16 (note 5(c))	Restated
Revenue	33,258	(161)	(30)	33,067
Cost of sales	(14,161)	(2,207)	396	(15,972)
General and administrative expenses	(11,786)	1,938	(289)	(10,137)
Finance costs, net	(1,076)	–	(72)	(1,148)
Profit before income tax*	6,080	(430)	5	5,655
Income tax	(971)	71	2	(898)
Profit for the year*	5,109	(359)	7	4,757
Profit attributable to:				
Holders of Share Stapled Units/shares of the Company	5,097	(359)	7	4,745
Non-controlling interests	12	–	–	12
Profit for the year	5,109	(359)	7	4,757
Earnings per Share Stapled Unit/share of the Company				
Basic (cents)	67.34	(4.74)	0.09	62.69
Diluted (cents)	67.31	(4.74)	0.09	62.66

In HK$ million

Consolidated statement of comprehensive income for the year ended December 31, 2017 (extract)	As originally presented	HKFRS 15 (note 5(b))	HKFRS 16 (note 5(c))	Restated
Profit for the year	5,109	(359)	7	4,757
Exchange differences on translating foreign operations	180	–	1	181
Total comprehensive income for the year*	4,677	(359)	8	4,326
Attributable to:				
Holders of Share Stapled Units/shares of the Company	4,665	(359)	8	4,314
Non-controlling interests	12	–	–	12
Total comprehensive income for the year	4,677	(359)	8	4,326

* 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.

5 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)	As at December 31, 2016 As originally presented	HKFRS 15 (note 5(b))	HKFRS 16 (note 5(c))	As at January 1, 2017 Restated
ASSETS AND LIABILITIES				
Non-current assets				
Right-of-use assets	–	–	2,555	2,555
Intangible assets	10,695	(2,543)	–	8,152
Fulfillment costs	–	1,378	–	1,378
Customer acquisition costs	–	648	–	648
Contract assets	–	349	–	349
Other non-current assets	610	–	8	618
Current assets				
Prepayments, deposits and other current assets	5,226	(2,344)	(92)	2,790
Contract assets	–	771	–	771
Current liabilities				
Accruals and other payables	(5,019)	–	50	(4,969)
Advances from customers	(2,126)	1,861	–	(265)
Contract liabilities	–	(1,276)	–	(1,276)
Lease liabilities	–	–	(1,414)	(1,414)
Current income tax liabilities	(1,008)	200	11	(797)
Non-current liabilities				
Deferred income	(1,021)	1,021	–	–
Contract liabilities	–	(801)	–	(801)
Lease liabilities	–	–	(1,200)	(1,200)
Net assets*	39,159	(736)	(82)	38,341
CAPITAL AND RESERVES				
Reserves	39,088	(736)	(82)	38,270
Total equity*	39,159	(736)	(82)	38,341

* 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.

5 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)	As at December 31, 2017 As originally presented	HKFRS 15 (note 5(b))	HKFRS 16 (note 5(c))	As at December 31, 2017 Restated	HKFRS 9 (2014) (note 5(d))	As at January 1, 2018 Restated
ASSETS AND LIABILITIES						
Non-current assets						
Right-of-use assets	–	–	2,220	2,220	–	2,220
Intangible assets	10,895	(2,929)	–	7,966	–	7,966
Fulfillment costs	–	1,378	–	1,378	–	1,378
Customer acquisition costs	–	611	–	611	–	611
Contract assets	–	350	–	350	–	350
Available-for-sale financial assets	77	–	–	77	(77)	–
Financial assets at FVOCI	–	–	–	–	77	77
Deferred income tax assets	466	–	2	468	–	468
Other non-current assets	692	–	150	842	–	842
Current assets						
Prepayments, deposits and other current assets	5,484	(2,665)	(47)	2,772	–	2,772
Contract assets	–	737	–	737	–	737
Current liabilities						
Accruals and other payables	(5,183)	–	54	(5,129)	–	(5,129)
Advances from customers	(2,326)	2,085	–	(241)	–	(241)
Contract liabilities	–	(1,288)	–	(1,288)	–	(1,288)
Lease liabilities	–	–	(1,157)	(1,157)	–	(1,157)
Current income tax liabilities	(1,138)	271	11	(856)	–	(856)
Non-current liabilities						
Deferred income	(1,307)	1,307	–	–	–	–
Contract liabilities	–	(952)	–	(952)	–	(952)
Lease liabilities	–	–	(1,307)	(1,307)	–	(1,307)
Net assets*	39,059	(1,095)	(74)	37,890	–	37,890
CAPITAL AND RESERVES						
Reserves	39,011	(1,095)	(74)	37,842	–	37,842
Total equity*	39,059	(1,095)	(74)	37,890	–	37,890

* 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.

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

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

In HK$ million

Consolidated statement of cash flows for the year ended December 31, 2017 (extract)	As originally presented	HKFRS 15 (note 5(b))	HKFRS 16 (note 5(c))	Restated
Net cash generated from operating activities	12,142	(3,511)	1,630	10,261
Net cash used in investing activities	(7,457)	3,511	31	(3,915)
Net cash used in financing activities	(4,360)	–	(1,661)	(6,021)
Net increase in cash and cash equivalents	325	–	–	325

b. HKFRS 15 *Revenue from Contracts with Customers*

The Groups have 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 Groups have elected to apply the new standard retrospectively and have restated comparatives for the prior years presented.

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

Before adoption of HKFRS 15, the Groups 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 Groups in proportion to their respective stand-alone 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 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.

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 5(a) above are restated, resulting in a decrease in retained profits attributable to holders of Share Stapled Units/shares of the Company as at December 31, 2016 and profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2017 of HK$736 million and HK$359 million respectively. The Groups' EBITDA as defined and disclosed in the segment information is also restated and decreased by HK$2,368 million for the year ended December 31, 2017.

For the Groups' 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 Groups' total net cash flow and adjusted funds flow as defined in the Trust Deed are unaffected.

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

c. HKFRS 16 *Leases*

The Groups have 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 Groups have elected to apply the new standard retrospectively and have restated comparatives for the prior years presented.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognized by the Groups 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 Groups 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 subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. 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 lessees, the Groups should allocate the consideration in the contract to each lease component on the basis of their relative stand-alone price. The Groups, as lessees, assessed their 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 3(h). 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.

In applying HKFRS 16 for the first time, the Groups have used the following practical expedients permitted by the standard:

– the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and

– the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 5(a) above are restated, resulting in a decrease in retained profits attributable to holders of Share Stapled Units/shares of the Company as at December 31, 2016 of HK$82 million and an increase in profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2017 of HK$7 million. The Groups' EBITDA as defined and disclosed in the segment information is also restated and increased by HK$1,656 million for the year ended December 31, 2017.

Cash payments for the settlement of lease liabilities for the year ended December 31, 2017 of HK$1,661 million were required to be reclassified from operating activities to financing activities and cash received from lease receivables for the year ended December 31, 2017 of HK$31 million were required to be reclassified from operating activities to investing activities according to HKFRS 16 in the restated consolidated statement of cash flows. The Groups' total net cash flow and adjusted funds flow as defined in the Trust Deed are unaffected.

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

d. HKFRS 9 (2014) *Financial Instruments*

The Groups have 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 Groups have 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 Groups' management has assessed the Groups' business models of management, and the contractual cash flow characteristics, of each of the Groups' financial instruments, and has classified them into the appropriate categories under HKFRS 9 (2014).

Accordingly, an investment previously classified as available-for-sale financial assets ("AFS financial assets") with a carrying amount of HK$77 million was reclassified to financial assets at FVOCI on January 1, 2018 as these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. Such reclassification has no impact on the measurement categories.

On adoption of HKFRS 9 (2014), the Groups have applied the new hedge accounting model prospectively from January 1, 2018 except upon transition to HKFRS 9 (2014), the Groups have 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 Groups recognize 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 the cash flow hedging relationships resulting in a reclassification of a credit balance of HK$44 million and a debit balance of HK$252 million from retained profits and hedging reserve, respectively, to the costs of hedging reserve as at January 1, 2018.

The Groups' 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 Groups' financial assets.

6 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

In HK$ million	Note	2017	2018
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		28,111	**28,143**
		28,111	**28,143**
Current assets			
Prepayments and deposits		4	**3**
Amounts due from subsidiaries		7,321	**7,366**
		7,325	**7,369**
Current liabilities			
Accruals and other payables		(33)	**(30)**
Amounts due to subsidiaries		(115)	**(96)**
Current income tax liabilities		–	**(9)**
		(148)	**(135)**
Net assets		35,288	**35,377**
CAPITAL AND RESERVES			
Share capital	32(a)	8	**8**
Reserves	32(b)	35,280	**35,369**
Total equity		35,288	**35,377**

Approved and authorized for issue by the Boards on February 22, 2019 and signed on behalf of the Boards by

Li Tzar Kai, Richard
Director

Hui Hon Hing, Susanna
Director

7 RELATED PARTY TRANSACTIONS

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

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

In HK$ million	Note	2017	**2018**
Telecommunications service fees received or receivable from a substantial shareholder of PCCW	a	74	**78**
Telecommunications service fees paid or payable to a substantial shareholder of PCCW	a	88	**87**
Telecommunications service fees, consultancy service charges and interest income received or receivable from joint ventures	a	39	**42**
Telecommunications service fees, equipment purchase, outsourcing fees and rental charges paid or payable to joint ventures	a	269	**298**
Consultancy service charges and interest income received or receivable from an associate	a	16	**14**
Telecommunications service fees paid or payable to an associate	a	12	**6**
Telecommunications service fees, connectivity service fees, equipment sales and insurance premium received or receivable from a related party under a common shareholder	a	–	**44**
Insurance premium and fronting service fees paid or payable to a related party under a common shareholder	a	–	**16**
Telecommunications service fees, management fee, equipment sales and other recharge costs received or receivable from fellow subsidiaries	a	1,582	**1,822**
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy fee, management fee and other recharged costs paid or payable to fellow subsidiaries	a	2,569	**2,799**
Rental and facilities management charges paid or payable to fellow subsidiaries	a	143	**2**
Key management compensation	b	67	**88**

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

b. Details of key management compensation

In HK$ million	2017	**2018**
Salaries and other short-term employee benefits	46	**44**
Share-based compensation	19	**23**
Termination benefits	–	**19**
Post-employment benefits	2	**2**
	67	**88**

c. Balances with related companies and a fellow subsidiary

Other than as specified in notes 22 and 23, the amount due to a fellow subsidiary and the net amount due from/to related companies as at December 31, 2017 and 2018 were unsecured, non-interest bearing and have no fixed repayment terms.

8 SEGMENT INFORMATION

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

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

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

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

- Other businesses of the Groups ("Other Businesses") primarily comprises new business areas such as Tap & Go mobile payment service and The Club program, and 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, interests in leasehold land, right-of-use assets 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 Groups' share of results of associates and joint ventures.

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

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

			2017 (Restated)		
In HK$ million	TSS	Mobile	Other Businesses	Eliminations	Total
Revenue					
External revenue	20,674	12,238	155	–	33,067
Inter-segment revenue	850	–	–	(850)	–
Total revenue	21,524	12,238	155	(850)	33,067
Revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	1,453	4,150	134	(101)	5,636
Over time	20,010	8,088	20	(749)	27,369
Revenue from other sources:					
Rental income	61	–	1	–	62
	21,524	12,238	155	(850)	33,067
Results					
EBITDA	8,060	4,816	(591)	–	12,285
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,641	880	134	–	2,655

8 SEGMENT INFORMATION *(CONTINUED)*

In HK$ million	TSS	Mobile	2018 Other Businesses	Eliminations	Total
Revenue					
External revenue	**21,128**	**13,825**	**234**	**–**	**35,187**
Inter-segment revenue	**646**	**184**	**6**	**(836)**	**–**
Total revenue	**21,774**	**14,009**	**240**	**(836)**	**35,187**
Revenue from contracts with customers:					
Timing of revenue recognition					
At a point in time	**1,667**	**5,757**	**206**	**(208)**	**7,422**
Over time	**20,046**	**8,252**	**33**	**(628)**	**27,703**
Revenue from other sources:					
Rental income	**61**	**–**	**1**	**–**	**62**
	21,774	**14,009**	**240**	**(836)**	**35,187**
Results					
EBITDA	**8,204**	**4,959**	**(605)**	**–**	**12,558**
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	**1,572**	**873**	**143**	**–**	**2,588**

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

In HK$ million	2017 (Restated)	**2018**
Total segment EBITDA	12,285	**12,558**
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets, net	2	**1**
Depreciation and amortization	(5,329)	**(5,343)**
Other (losses)/gains, net	(145)	**2**
Finance costs, net	(1,148)	**(1,350)**
Share of results of associates	(12)	**–**
Share of results of joint ventures	2	**(16)**
Profit before income tax	5,655	**5,852**

8 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	2017 (Restated)	**2018**
Hong Kong (place of domicile)	27,693	**29,740**
Mainland China, Macau and Taiwan, China	579	**510**
Others	4,795	**4,937**
	33,067	**35,187**

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK$82,869 million as at December 31, 2018 (2017(restated): HK$80,343 million). The total of these non-current assets located in other countries are HK$2,896 million as at December 31, 2018 (2017(restated): HK$2,909 million).

9 REVENUE

In HK$ million	2017 (Restated)	**2018**
Revenue from contracts with customers	33,005	**35,125**
Revenue from other sources: rental income	62	**62**
	33,067	**35,187**

a. Revenue recognition in relation to contract liabilities

In HK$ million	2017	**2018**
Revenue recognized that was included in the contract liability balance at the beginning of the year	1,276	**1,288**

b. Unsatisfied long-term fixed-price contracts

In HK$ million	**2018**
Aggregate amount of the transaction price allocated to long-term fixed-price contracts that are partially or fully unsatisfied as at December 31, 2018*	**16,377**

* As permitted under the transitional provisions in HKFRS 15, the transaction price allocated to partially or fully unsatisfied performance obligations as of December 31, 2017 is not presented.

Management expects that 63% and 23% of the transaction price allocated to the unsatisfied long-term fixed-price contracts as of December 31, 2018 will be recognized as revenue during the years ending December 31, 2019 and 2020 respectively. The remaining 14% will be recognized as revenue after the year ending December 31, 2020. The amount disclosed above does not include unsatisfied performance obligation that were related to the Groups' contracts with customers with duration of one year or less and contracts with customers billed directly according to performance completed to date.

10 OTHER (LOSSES)/GAINS, NET

In HK$ million	2017	**2018**
Net realized gain on disposal on an AFS financial asset	6	**–**
Provision for impairment on interests in associates	(154)	**–**
Others	3	**2**
	(145)	**2**

11 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	2017	**2018**
Salaries, bonuses and other benefits	2,453	**2,271**
Share-based compensation expenses	50	**55**
Retirement costs for staff under defined contribution retirement schemes	309	**302**
	2,812	**2,628**
Less: Staff costs included in cost of sales	(844)	**(812)**
Staff costs included in general and administrative expenses	1,968	**1,816**

11 PROFIT BEFORE INCOME TAX *(CONTINUED)*

Profit before income tax is stated after charging and crediting the following: *(continued)*

b. Other items

In HK$ million	2017 (Restated)	**2018**
Charging/(crediting):		
Impairment loss for trade receivables	259	**211**
Provision for inventory obsolescence	12	**8**
Depreciation of property, plant and equipment	1,381	**1,324**
Depreciation of right-of-use assets – land and buildings	1,322	**1,262**
Depreciation of right-of-use assets – network capacity and equipment	260	**289**
Amortization of land lease premium – interests in leasehold land	13	**13**
Amortization of intangible assets	1,163	**1,186**
Amortization of fulfillment costs	427	**417**
Amortization of customer acquisition costs	763	**852**
Cost of inventories sold	6,294	**7,960**
Cost of sales, excluding inventories sold	9,678	**10,020**
Exchange loss/(gain), net	311	**(6)**
Less: Cash flow hedges – transferred from equity	(332)	**35**
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets, net	(2)	**(1)**
Remuneration to the Company's auditor		
– audit and audit related services	12	**14**
– non-audit services	1	**7**
Remuneration to other auditors		
– audit and audit related services	7	**5**
– non-audit services	2	**2**
Short-term leases expenses	50	**84**
Low-value assets leases expenses	3	**2**
Variable lease payment expenses	1	**2**

12 FINANCE COSTS, NET

In HK$ million	2017 (Restated)	**2018**
Interest expense, excluding interest expense on lease liabilities	(1,157)	**(1,330)**
Interest expense on lease liabilities	(77)	**(96)**
Notional accretion on carrier licence fee liabilities	(52)	**(44)**
Other finance costs	(2)	**(6)**
Hedge ineffectiveness: cross currency swap contracts and foreign exchange forward contract – cash flow hedge for foreign currency risk	51	**19**
Hedge ineffectiveness: interest rate swap contract – cash flow hedge for interest rate risk	3	**2**
Impact of re-designation of fair value hedges	(16)	**(16)**
	(1,250)	**(1,471)**
Interest capitalized in property, plant and equipment *(note a)*	53	**52**
Total finance costs	(1,197)	**(1,419)**
Interest income	44	**60**
Interest income from net investment in leases	5	**9**
Total interest income	49	**69**
Finance costs, net	(1,148)	**(1,350)**

a. The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.05% to 3.31% for the year ended December 31, 2018 (2017: from 3.07% to 3.16%).

13 DIRECTORS’ AND SENIOR EXECUTIVES’ EMOLUMENTS

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

	2017							
In HK$ million	Directors’ fees	Salaries	Allowances	Benefits in kind[1]	Bonuses[2]	Retirement scheme contributions	Share-based compensation[3]	Total
Executive directors								
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–
Alexander Anthony Arena	–	10.38[4]	10.38	0.03	12.20	1.56	12.83	47.38
Hui Hon Hing, Susanna	–	3.68	2.11	0.03	5.29	0.44	9.37	20.92
Non-executive directors								
Srinivas Bangalore Gangaiah	–	–	–	–	–	–	–	–
Peter Anthony Allen	–	–	–	–	–	–	–	–
Chung Cho Yee, Mico	0.24	–	–	–	–	–	–	0.24
Lu Yimin	0.24[5]	–	–	–	–	–	–	0.24
Li Fushen	0.24[6]	–	–	–	–	–	–	0.24
Independent non-executive directors								
Professor Chang Hsin Kang	0.24	–	–	–	–	–	–	0.24
Sunil Varma	0.36[7]	–	–	–	–	–	–	0.36
Aman Mehta	0.36[8]	–	–	–	–	–	–	0.36
Frances Waikwun Wong	0.36[9]	–	–	–	–	–	–	0.36
	2.04	14.06	12.49	0.06	17.49	2.00	22.20	70.34

Notes:

1 Benefits in kind mainly includes medical insurance premium.

2 Bonus amounts shown above represent the 2016 bonuses that were paid in 2017. It was determined by reference to the Groups and the individual performance during the year ended December 31, 2016.

3 Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2017 for respective directors under the share award schemes.

4 Excludes remuneration for duties performed for related companies.

5 Fee receivable as a non-executive director in 2017 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited.

6 Fee receivable as a non-executive director in 2017 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited.

7 Includes HK$118,450 fee as Chairman of Audit Committee.

8 Includes HK$118,450 fee as Chairman of Nomination Committee.

9 Includes HK$118,450 fee as Chairwoman of Remuneration Committee.

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

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

	2018							
In HK$ million	Directors' fees	Salaries	Allowances	Benefits in kind[1]	Bonuses[2]	Retirement scheme contributions	Share-based compensation[3]	Total
Executive directors								
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–
Alexander Anthony Arena[4]	–	10.95	7.07	0.02	12.26	1.06	31.33	62.69
Hui Hon Hing, Susanna	–	3.78	2.17	0.03	5.31	0.45	5.56	17.30
Non-executive directors								
Srinivas Bangalore Gangaiah	–	–	–	–	–	–	–	–
Peter Anthony Allen	–	–	–	–	–	–	–	–
Chung Cho Yee, Mico	0.24	–	–	–	–	–	–	0.24
Lu Yimin[5]	0.17[6]	–	–	–	–	–	–	0.17
Li Fushen	0.24[7]	–	–	–	–	–	–	0.24
Zhu Kebing[8]	0.07[9]	–	–	–	–	–	–	0.07
Independent non-executive directors								
Professor Chang Hsin Kang	0.24	–	–	–	–	–	–	0.24
Sunil Varma	0.36[10]	–	–	–	–	–	–	0.36
Aman Mehta	0.36[11]	–	–	–	–	–	–	0.36
Frances Waikwun Wong	0.36[12]	–	–	–	–	–	–	0.36
	2.04	14.73	9.24	0.05	17.57	1.51	36.89	82.03

Notes:

1 Benefits in kind mainly includes medical insurance premium.
2 Bonus amounts shown above represent the 2017 bonuses that were paid in 2018. It was determined by reference to the Groups and the individual performance during the year ended December 31, 2017.
3 Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested (including accelerated vesting by reason of retirement) in 2018 for respective directors under the share award schemes.
4 Retired as an executive director with effect from the end of August 31, 2018.
5 Resigned as a non-executive director with effect from September 18, 2018.
6 Fee receivable as a non-executive director in 2018 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited.
7 Fee receivable as a non-executive director in 2018 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited.
8 Appointed as a non-executive director with effect from September 18, 2018.
9 Fee receivable as a non-executive director in 2018 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Zhu Kebing and China United Network Communications Group Company Limited.
10 Includes HK$118,450 fee as Chairman of Audit Committee.
11 Includes HK$118,450 fee as Chairman of Nomination Committee.
12 Includes HK$118,450 fee as Chairwoman of Remuneration Committee.

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

b. Directors' other services

No other emoluments were paid to or receivable by any director in respect of directors' other services in connection with the management of the affairs of the Company or its subsidiary undertakings during the year ended December 31, 2018 (2017: nil).

c. Directors' retirement benefits

Upon the retirement of Mr Alexander Anthony Arena, retirement benefits were paid to him during the year ended December 31, 2018 by a defined contribution retirement scheme operated by the Group in respect of his service as a director of the Company and its subsidiaries (2017: nil).

No other retirement benefits were paid to or receivable by any director in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertakings during the year ended December 31, 2018 (2017: nil).

d. Directors' termination benefits

Upon the retirement of Mr Alexander Anthony Arena, he received termination benefits of a total amount of approximately HK$70 million from both the Company and PCCW during the year ended December 31, 2018 (2017: nil)

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

No consideration was provided to or receivable by third parties for making available directors' services during the year ended December 31, 2018 (2017: nil).

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

There were no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities during the year ended December 31, 2018 (2017: nil).

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

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the year ended December 31, 2018 (2017: nil).

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

h. Individuals with highest emoluments

i. Of the five individuals with the highest emoluments, two (2017: two) are directors of the Company and the Trustee-Manager whose emoluments are disclosed in note 13(a). The emoluments in respect of the three (2017: three) non-director individuals for the year ended December 31, 2018 were as follows:

In HK$ million	2017	**2018**
Salaries, allowances and benefits in kind	11	**11**
Bonuses	2	**3**
Retirement scheme contributions	1	**1**
Share-based compensation	3	**2**
	17	**17**

ii. The emoluments of the three (2017: three) non-director individuals for the year ended December 31, 2018 were within the following emolument ranges:

	Number of individuals	
	2017	**2018**
HK$5,000,001 – HK$5,500,000	1	**2**
HK$5,500,001 – HK$6,000,000	1	**–**
HK$6,500,001 – HK$7,000,000	1	**1**
	3	**3**

14 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	2017 (Restated)	**2018**
Hong Kong profits tax		
– provision for current year	767	**610**
– over provision in respect of prior years	(34)	**(14)**
Overseas tax		
– provision for current year	33	**30**
– under/(over) provision in respect of prior years	5	**(23)**
Movement of deferred income tax *(note 34(a))*	127	**407**
	898	**1,010**

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year.

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

14 INCOME TAX *(CONTINUED)*

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

In HK$ million	2017 (Restated)	**2018**
Profit before income tax	5,655	**5,852**
Notional tax on profit before income tax, calculated at the Hong Kong tax rate of 16.5% (2017: 16.5%)	933	**966**
Effect of different tax rates of subsidiaries operating overseas	12	**7**
Income not subject to tax	(26)	**(29)**
Expenses not deductible for tax purposes	99	**60**
Tax losses not recognized	78	**36**
Over provision in respect of prior years, net	(29)	**(37)**
Utilization of previously unrecognized tax losses	(24)	**(12)**
Recognition of tax losses	(292)	**(18)**
Recognition of previously unrecognized temporary differences	65	**34**
Effect on change of corporate tax rate	80	**–**
Net losses of associates and joint ventures not deductible for tax purpose	2	**3**
Income tax expense	898	**1,010**

15 DISTRIBUTIONS/DIVIDENDS

In HK$ million	2017	**2018**
Interim distribution/dividend declared and paid in respect of current year of 29.12 HK cents (2017: 28.12 HK cents) per Share Stapled Unit/ordinary share of the Company	2,129	**2,205**
Final distribution/dividend declared in respect of previous financial year, approved and paid during the year of 36.75 HK cents (2017: 34.76 HK cents) per Share Stapled Unit/ordinary share of the Company	2,632	**2,783**
Less: Distribution/dividend for Share Stapled Units/shares held by the Company's Share Stapled Units Award Schemes	(2)	**–**
	2,630	**2,783**
	4,759	**4,988**

For the year ended December 31, 2018, the Company proposed a final dividend of 39.17 HK cents per ordinary share, totaling HK$2,966 million (2017: 36.75 HK cents per ordinary share, totaling HK$2,783 million) to HKT Trust after the end of the reporting period.

For the year ended December 31, 2018, HKT Trust proposed a final distribution of 39.17 HK cents per Share Stapled Unit, totaling HK$2,966 million (2017: 36.75 HK cents per Share Stapled Unit, totaling HK$2,783 million) to holders of Share Stapled Units after the end of the reporting period.

The final distribution/dividend proposed after the end of the reporting period, referred to above, have not been recognized as liabilities as at the end of the reporting period.

16 EARNINGS PER SHARE STAPLED UNIT/SHARE OF THE COMPANY

The calculations of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the following data:

	2017 (Restated)	**2018**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	4,745	**4,825**
Number of Share Stapled Units/shares of the Company		
Weighted average number of Share Stapled Units/ordinary shares of the Company	7,571,742,334	**7,571,742,334**
Effect of Share Stapled Units held under the Company's Share Stapled Units Award Schemes	(2,233,258)	**(372,000)**
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of basic earnings per Share Stapled Unit/share of the Company	7,569,509,076	**7,571,370,334**
Effect of Share Stapled Units awarded under the Company's Share Stapled Units Award Schemes	2,832,205	**2,364,723**
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of diluted earnings per Share Stapled Unit/share of the Company	7,572,341,281	**7,573,735,057**

17 PROPERTY, PLANT AND EQUIPMENT

	2017					
In HK$ million	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,389	21,334	24,014	13,112	1,726	61,575
Additions	–	490	249	401	1,515	2,655
Transfers	–	579	481	265	(1,325)	–
Disposals	–	(242)	(127)	(69)	–	(438)
Exchange differences	–	22	191	31	–	244
End of year	1,389	22,183	24,808	13,740	1,916	64,036
Accumulated depreciation and impairment						
Beginning of year	655	17,351	15,174	10,376	–	43,556
Charge for the year	29	405	475	472	–	1,381
Disposals	–	(225)	(127)	(66)	–	(418)
Exchange differences	–	21	95	15	–	131
End of year	684	17,552	15,617	10,797	–	44,650
Net book value						
End of year	705	4,631	9,191	2,943	1,916	19,386
Beginning of year	734	3,983	8,840	2,736	1,726	18,019

17 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	2018					
In HK$ million	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,389	22,183	24,808	13,740	1,916	64,036
Additions	–	488	280	211	1,609	2,588
Transfers	–	98	312	493	(903)	–
Disposals	–	(240)	(26)	(167)	–	(433)
Exchange differences	–	(21)	(68)	(24)	–	(113)
End of year	1,389	22,508	25,306	14,253	2,622	66,078
Accumulated depreciation and impairment						
Beginning of year	684	17,552	15,617	10,797	–	44,650
Charge for the year	29	387	479	429	–	1,324
Disposals	–	(240)	(26)	(165)	–	(431)
Exchange differences	–	(17)	(27)	(22)	–	(66)
End of year	713	17,682	16,043	11,039	–	45,477
Net book value						
End of year	676	4,826	9,263	3,214	2,622	20,601
Beginning of year	705	4,631	9,191	2,943	1,916	19,386

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

During the year ended December 31, 2017, the Groups performed a review to reassess the useful lives of certain property, plant and equipment of the Groups, based on the expectations of the Groups' operational management and technological trends. The reassessment has resulted in changes in the estimated useful lives of these assets. The Groups consider this to be a change in accounting estimate and therefore accounted for the change on a prospective basis. As a result of this change in accounting estimate, the Groups' profit attributable to the holders of Share Stapled Units/shares of the Company for the year ended December 31, 2017 increased by HK$115 million and the equity attributable to the holders of Share Stapled Units/shares of the Company as at December 31, 2017 increased by HK$115 million.

18 RIGHT-OF-USE ASSETS

In HK$ million	2017 (Restated)	**2018**
Land and buildings	1,782	**2,414**
Network capacity and equipment	438	**394**
Total	2,220	**2,808**

The Groups obtain right to control the use of various land and buildings, and network capacity and equipment for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from 1 to 20 years. Except for lease covenants mainly related to the maintenance and use of the leased assets that are commonly found in lease arrangements, there are no other covenants or restrictions imposed by the lease agreements. The leased assets may not be used as security for borrowing purposes. The Groups also sub-lease certain buildings whose lease terms are for the whole of the remaining term of the head lease and have classified the sub leases as finance leases.

Additions to the right-of-use assets during the year ended December 31, 2018 were HK$2,302 million (2017: HK$1,423 million).

During the year ended December 31, 2018, total cash outflow for leases of HK$1,665 million (2017: HK$1,661 million) was included in net cash used in financing activities.

19 INTERESTS IN LEASEHOLD LAND

In HK$ million	2017	**2018**
Cost		
Beginning and end of year	536	**536**
Accumulated amortization		
Beginning of year	283	**296**
Charge for the year	13	**13**
End of year	296	**309**
Net book value		
End of year	240	**227**
Beginning of year	253	**240**

20 GOODWILL

In HK$ million	2017	**2018**
Cost		
Beginning of year	49,787	**49,814**
Acquisition of a subsidiary	–	**3**
Exchange differences	27	**(12)**
End of year	49,814	**49,805**

20 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill

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

In HK$ million	2017 (Restated)	**2018**
TSS		
– Local telephony and data services	31,692	**31,693**
– Global	1,269	**1,259**
Mobile	16,853	**16,853**
Total	49,814	**49,805**

Due to restructuring of certain business units during 2018, goodwill attributable to certain CGUs has been reviewed and re-allocated accordingly. The comparative information is presented in line with current year's basis.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management generally covering a five-year period. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

The key assumptions used for value-in-use calculations in 2017 and 2018 are as follows:

	2017				**2018**			
	Revenue growth rate	EBITDA growth rate	Terminal growth rate	Pre-tax discount rate	**Revenue growth rate**	**EBITDA growth rate**	**Terminal growth rate**	**Pre-tax discount rate**
TSS								
– Local telephony and data services	1%	1%	1%	7%	**2%**	**2%**	**1%**	**8%**
– Global	1%	6%	3%	9%	**1%**	**3%**	**3%**	**13%**
Mobile	1%	3%	2%	11%	**2%**	**3%**	**2%**	**12%**

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

There was no impairment required from the review on goodwill. A reasonably possible change in assumptions would not result in impairment and as such disclosure of sensitivity analysis is not considered necessary.

Management determined budgeted revenue and EBITDA growth rates based on past performance and its expectations for market development. The average growth rates used are consistent with the forecasts included in industry reports. The terminal growth rates do not exceed the long-term average growth rates for the businesses in which the CGUs operate.

21 INTANGIBLE ASSETS

In HK$ million	Trademarks	Carrier licences	2017 (Restated) Customer base	Software	Total
Cost					
Beginning of year	1,858	5,075	2,763	1,820	11,516
Additions	–	103	–	869	972
Disposals	–	–	(1)	–	(1)
Exchange differences	4	–	5	–	9
End of year	1,862	5,178	2,767	2,689	12,496
Accumulated amortization					
Beginning of year	382	1,204	1,230	548	3,364
Charge for the year	93	413	460	197	1,163
Exchange differences	1	–	2	–	3
End of year	476	1,617	1,692	745	4,530
Net book value					
End of year	1,386	3,561	1,075	1,944	7,966
Beginning of year	1,476	3,871	1,533	1,272	8,152

In HK$ million	**Trademarks**	**Carrier licences**	**2018 Customer base**	**Software**	**Total**
Cost					
Beginning of year	**1,862**	**5,178**	**2,767**	**2,689**	**12,496**
Additions	**–**	**104**	**–**	**1,811**	**1,915**
Write-off	**–**	**(730)**	**–**	**–**	**(730)**
Exchange differences	**(3)**	**–**	**(3)**	**–**	**(6)**
End of year	**1,859**	**4,552**	**2,764**	**4,500**	**13,675**
Accumulated amortization					
Beginning of year	**476**	**1,617**	**1,692**	**745**	**4,530**
Charge for the year	**92**	**414**	**460**	**220**	**1,186**
Write-off	**–**	**(730)**	**–**	**–**	**(730)**
Exchange differences	**(1)**	**–**	**(1)**	**–**	**(2)**
End of year	**567**	**1,301**	**2,151**	**965**	**4,984**
Net book value					
End of year	**1,292**	**3,251**	**613**	**3,535**	**8,691**
Beginning of year	**1,386**	**3,561**	**1,075**	**1,944**	**7,966**

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

22 INTERESTS IN ASSOCIATES

In HK$ million	2017	**2018**
Share of net assets of associates	66	**65**
Loans due from associates, net	235	**233**
Provision for impairment	(301)	**(298)**
	–	**–**
Investments at cost, unlisted	115	**113**

During the year ended December 31, 2018, no provision for impairment was recognized in the consolidated income statement.

During the year ended December 31, 2017, provision for impairment of HK$154 million was included in the other losses/(gains), net in the consolidated income statement. This was resulted from the revised expectation that the carrying amount of the associates is no longer recoverable.

As at December 31, 2018, loans due from associates comprised certain unsecured loans totaling HK$160 million (2017: HK$160 million) which bear interest at 3% per annum (2017: 4% per annum) and are repayable within 1 year (2017: same), certain secured loans totaling HK$180 million (2017: HK$180 million) which bear interest at 3% per annum (2017: 4% per annum) and are repayable within 1 year (2017: same) and a secured loan amounted to HK$6 million (2017: HK$8 million), which bears interest at 8% per annum (2017: same) and is repayable within 1 year (2017: repayable in 2 years). The amounts were considered as equity in nature for which full provision for impairment had been made as at December 31, 2017 and 2018.

a. As at December 31, 2017 and 2018, the Groups considered that there was no principal associate.

b. Contingent liabilities in respect of the associates

The Groups' contingent liabilities relating to their associates are disclosed in note 40. As at December 31, 2018, the Groups had no share of contingent liabilities related to the associates (2017: nil).

c. Summarized unaudited financial information of the Groups' associates

For the year ended December 31, 2018, the Groups had not accounted for any share of loss after income tax, other comprehensive loss and total comprehensive loss of the individually immaterial associates under equity method.

For the year ended December 31, 2017, the aggregate net amounts of the Groups' share of loss after income tax, other comprehensive loss and total comprehensive loss of the individually immaterial associates that are accounted for using the equity method are HK$12 million, nil and HK$12 million, respectively.

d. Reconciliation of summarized financial information

As at December 31, 2018, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method is nil (2017: nil).

During the year ended December 31, 2018, the Groups had unrecognized share of losses of associates of HK$7 million (2017: nil). As at December 31, 2018, the Groups had unrecognized accumulated share of losses of the associates of HK$7 million (2017: nil).

23 INTERESTS IN JOINT VENTURES

In HK$ million	2017	**2018**
Share of net assets of joint ventures	279	**296**
Loans due from joint ventures, net	441	**382**
	720	**678**
Investments at cost, unlisted	278	**308**

As at December 31, 2018, all balances with joint ventures are unsecured and non-interest bearing, and have no fixed terms of repayment except that the loan due from a joint venture of HK$382 million (2017: HK$426 million) bears interest at HIBOR plus 3% per annum (2017: same). The amounts are considered as part of the interests in joint ventures.

a. As at December 31, 2018, particulars of the principal joint venture of the Groups are as follows:

Company name	Principal place of business/Place of incorporation	Principal activities	Value of issued capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	50%	Equity

GBL is a strategic partnership of the Groups, providing access to advanced connectivity services in Hong Kong for the development of mobile business.

The above principal joint venture is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of joint ventures

As at December 31, 2018, the Groups' share of their joint ventures' commitments were as follows:

In HK$ million	2017	**2018**
Commitment to provide funding	86	**73**
Capital commitments – Authorized and contracted for acquisition of property, plant and equipment	56	**26**

There were no contingent liabilities relating to the Groups' interests in the joint ventures. As at December 31, 2018, the Groups had no share of contingent liabilities related to the joint ventures (2017: nil).

23 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Groups' joint ventures

Set out below is the summarized unaudited financial information of GBL, the principal joint venture of the Groups and being accounted for using the equity method:

In HK$ million	As at December 31, 2017	2018
Non-current assets	961	**900**
Current assets		
Cash and cash equivalents	12	**28**
Other current assets (excluding cash and cash equivalents)	30	**25**
Total current assets	42	**53**
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(285)	**(325)**
Other current liabilities (including trade payables, accruals and other payables)	(88)	**(65)**
Total current liabilities	(373)	**(390)**
Non-current liabilities		
Financial liabilities	(663)	**(604)**
Other non-current liabilities	(30)	**(33)**
Total non-current liabilities	(693)	**(637)**
Net liabilities	(63)	**(74)**
Equity attributable to equity holders	(63)	**(74)**

In HK$ million	For the year ended December 31, 2017	2018
Revenue	245	**254**
Depreciation and amortization	(97)	**(102)**
Interest expense	(34)	**(43)**
Profit before income tax	1	**1**
Income tax	(15)	**(12)**
Loss after income tax and total comprehensive loss	(14)	**(11)**
Dividend received from the joint venture	–	**–**

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

For the year ended December 31, 2018, the aggregate net amounts of the Groups' share of loss after income tax, other comprehensive income and total comprehensive loss of the individually immaterial joint ventures that are accounted for using the equity method are HK$11 million (2017: profit after income tax of HK$9 million), HK$5 million (2017: HK$5 million) and HK$6 million (2017: total comprehensive income of HK$14 million), respectively.

23 INTERESTS IN JOINT VENTURES *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information of the Groups' joint ventures

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Groups' interests in GBL, the principal joint venture.

In HK$ million	2017	**2018**
Net liabilities		
Beginning of year	(49)	**(63)**
Loss and total comprehensive loss for the year	(14)	**(11)**
End of year	(63)	**(74)**
Interest in a joint venture	50%	**50%**
Interest in a joint venture	(32)	**(37)**
Loan due from a joint venture	426	**382**
Carrying amount	394	**345**

As at December 31, 2018, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method is HK$333 million (2017: HK$326 million).

During the year ended December 31, 2018, the Groups did not have any unrecognized share of losses of joint ventures (2017: nil). As at December 31, 2018, there was no accumulated share of losses of the joint ventures unrecognized by the Groups (2017: nil).

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	2017
Unlisted equity securities	
Balance as at January 1 and December 31,	77

Before the adoption of HKFRS 9 (2014) on January 1, 2018, AFS financial assets were non-derivative financial assets that were either designated in this category or not classified into financial assets at FVPL, held-to-maturity investments and loans and receivables.

The AFS financial assets were presented as non-current assets unless they would be matured, or management intended to dispose of them within 12 months from the end of the reporting period.

Investments were considered to be impaired if there had been a significant or prolonged decline in the fair value below its cost.

As disclosed in note 5(d), after adoption of HKFRS 9 (2014), AFS financial assets were reclassified as financial assets at FVOCI as at January 1, 2018.

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In HK$ million	2018
Unlisted equity securities	
Balance as at January 1 and December 31,	**77**

Financial assets at FVOCI comprise unlisted equity investments which were held for strategic purposes.

These investments were classified as AFS financial assets as at December 31, 2017. In the prior financial year, the Groups had designated these investments as AFS financial assets where the Groups did not intend to dispose these assets within 12 months from the end of the reporting period (see note 24). See note 5(d) for explanations regarding the change in accounting policies and the reclassification of the investments from AFS financial assets to financial assets at FVOCI.

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	2017	2018
Listed securities	37	**20**
Less: Securities held for employee share award schemes to be vested within one year classified as current assets	(17)	**(12)**
Non-current portion	20	**8**

Financial assets at fair value through profit or loss represent PCCW Shares acquired and subscribed under the PCCW Purchase Scheme and PCCW Subscription Scheme. Refer to note 31(b)(ii) for details of the share award schemes of PCCW.

27 INTERESTS IN SUBSIDIARIES

a. As at December 31, 2018, particulars of the principal subsidiaries of the Company are as follows:

Company name	Country/ place of incorporation/ establishment and operation	Amount of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
HKT Group Holdings Limited ("HKTGH")	Cayman Islands	US$636,000,013	100%	–	Investment holding
HKT Services Limited	Hong Kong	HK$1	–	100%	Provision of management services to group companies
Hong Kong Telecommunications (HKT) Limited ("HKTL")	Hong Kong	HK$9,945,156,001	–	100%	Provision of telecommunications services
電訊盈科科技(北京)有限公司[3] (PCCW Technology (Beijing) Limited[5])	The People's Republic of China ("The PRC")	RMB40,000,000	–	100%	System integration, software development and technical services consultancy

27 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2018, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Country/ place of incorporation/ establishment and operation	Amount of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
CSL Mobile Limited	Hong Kong	HK$7,900,280,100 ordinary shares and HK$1,254,000,000 non-voting deferred shares	–	100%	Provision of mobile services to its customers and the sale of mobile handsets and accessories
Sun Mobile Limited	Hong Kong	HK$41,600,000	–	60%[1]	Provision of mobile telecommunications services to customers in Hong Kong
Gateway Global Communications Limited	United Kingdom	GBP1	–	100%	Provision of network-based telecommunications services to external customers and related companies
PCCW Global B.V.	Netherlands/ France	EUR18,000	–	100%	Sales, distribution and marketing of telecommunication services and products
PCCW Global, Inc.	Delaware, U.S.	US$18.01	–	100%	Supply of broadband internet access solutions and web services
PCCW Global Limited	Hong Kong/ Dubai Media City	HK$240,016,690.65	–	100%	Provision of network-based telecommunications services
PCCW Global (Japan) K.K.	Japan	JPY10,000,000	–	100%	Provision of telecommunications services
PCCW Global (HK) Limited	Hong Kong	HK$10	–	100%	Provision of satellite-based and network-based telecommunications services
Gateway Communications S.A.S.	France	EUR10,000	–	100%	Provision of wholesale voice and data services

27 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2018, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Country/ place of incorporation/ establishment and operation	Amount of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
HKT Global (Singapore) Pte. Ltd.	Singapore/ Malaysia	S$60,956,485.64	–	100%	Provision of telecommunications solutions related services
PCCW (Macau), Limitada	Macau	MOP2,000,000	–	75%[2]	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services
廣州電盈綜合客戶服務技術發展有限公司[3] (PCCW Customer Management Technology and Services (Guangzhou) Limited[5])	The PRC	HK$93,240,000	–	100%	Customer service and consultancy
HKT Teleservices International Limited	Hong Kong	HK$350,000,002	–	100%	Provision of customer relationship management and customer contact management solutions and services
HKT Teleservices (US), Inc.	Nebraska, U.S.	US$1,169[4]	–	100%	Provision of call center and telemarketing services
HKT Payment Limited	Hong Kong	HK$480,000,000	–	100%	Issue of stored value facilities in Hong Kong

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

Notes:
1. The equity interest held by non-controlling interest is 40% as at December 31, 2018.
2. The equity interest held by non-controlling interest is 25% as at December 31, 2018.
3. Represents a wholly foreign owned enterprise.
4. Excluding the treasury stock.
5. Unofficial company name.

b. Non-controlling interests of the Groups' subsidiaries

The total non-controlling interests as at December 31, 2018 were HK$39 million (2017: HK$40 million), of which HK$44 million (2017: HK$33 million) was attributable to non-controlling interests in Sun Mobile Limited and PCCW (Macau), Limitada.

28 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK$ million	2017	**2018**
Purchased parts and materials	331	**610**
Finished goods	359	**388**
Consumable inventories	59	**82**
	749	**1,080**

b. Trade receivables, net

In HK$ million	2017	**2018**
Trade receivables *(note i)*	2,970	**3,862**
Less: loss allowance *(note ii)*	(183)	**(135)**
Trade receivables, net	2,787	**3,727**

The balance represents amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days from the date of invoice and therefore are all classified as current. Details about the Groups' impairment policies are provided in note 3(o)(i).

Included in trade receivables, net are the amounts due from related parties of HK$47 million (2017: HK$36 million).

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

In HK$ million	2017	**2018**
1 – 30 days	2,008	**2,889**
31 – 60 days	207	**288**
61 – 90 days	170	**155**
91 – 120 days	99	**99**
Over 120 days	486	**431**
	2,970	**3,862**

28 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

b. Trade receivables, net *(continued)*

ii. Impairment for trade receivables

The Groups apply the HKFRS 9 (2014) simplified approach to measure loss allowance for expected credit losses which uses a lifetime expected loss allowance for trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are estimated based on the corresponding historical credit losses experienced, adjusted with the expected change between current and forward looking information on macroeconomic factors, if material. On that basis, the loss allowance as at December 31, 2018 is determined as follows:

Expected credit loss rate	**2018**
Current	**1%**
1 – 120 days past due	**2%**
Over 120 days past due	**31%**

In the prior years, the impairment of trade receivables was assessed based on the incurred loss model. The trade receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognized in a separate provision for impairment. The adoption of the new impairment model as at January 1, 2018 has not resulted in material impact on the carrying amount of the loss allowance.

The movements in the loss allowance during the year are as follows:

In HK$ million	2017	**2018**
Beginning of year	190	**183**
Net impairment loss recognized	259	**211**
Uncollectible amounts written off	(266)	**(259)**
End of year	183	**135**

c. Restricted cash

As at December 31, 2018, cash balance of HK$88 million (2017: HK$51 million) has been received from and restricted for the use of certain customers.

d. Trade payables

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

In HK$ million	2017	**2018**
1 – 30 days	1,257	**1,205**
31 – 60 days	125	**121**
61 – 90 days	39	**53**
91 – 120 days	46	**22**
Over 120 days	407	**386**
	1,874	**1,787**

Included in trade payables are the amounts due to related parties of HK$32 million (2017: HK$50 million).

29 LONG-TERM BORROWINGS

In HK$ million	2017	**2018**
Repayable within a period		
– over one year, but not exceeding two years	9,350	**2,022**
– over two years, but not exceeding five years	12,164	**24,333**
– over five years	17,632	**13,814**
	39,146	**40,169**
Representing:		
US$500 million 3.75% guaranteed notes due 2023 *(note a)*	3,787	**3,818**
US$300 million zero coupon guaranteed notes due 2030 *(note b)*	2,329	**2,335**
US$500 million 3.625% guaranteed notes due 2025 *(note c)*	3,863	**3,878**
EUR200 million 1.65% guaranteed notes due 2027 *(note d)*	1,830	**1,761**
US$750 million 3.00% guaranteed notes due 2026 *(note e)*	5,823	**5,840**
Bank borrowings	21,514	**22,537**
	39,146	**40,169**
Secured	–	**–**
Unsecured	39,146	**40,169**

a. US$500 million 3.75% guaranteed notes due 2023

On March 8, 2013, PCCW-HKT Capital No.5 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

b. US$300 million zero coupon guaranteed notes due 2030

On January 15, 2015, HKT Capital No. 1 Limited, an indirect wholly-owned subsidiary of the Company, issued US$300 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange in Taiwan, China. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

c. US$500 million 3.625% guaranteed notes due 2025

On April 2, 2015, HKT Capital No. 2 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 3.625% guaranteed notes due 2025, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

29 LONG-TERM BORROWINGS *(CONTINUED)*

d. EUR200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, issued EUR200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

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

On July 14, 2016, HKT Capital No. 4 Limited, an indirect wholly-owned subsidiary of the Company, issued US$750 million 3.00% guaranteed notes due 2026, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

f. Refer to note 41 for details of the Groups' bank loan facilities.

30 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	2017	**2018**
Non-current assets		
Cross currency swap contracts and foreign exchange forward contract		
– cash flow hedges for foreign currency risk *(note a)*	183	**116**
Interest rate swap contract – cash flow hedges for interest rate risk *(note b)*	40	**32**
	223	**148**
Non-current liabilities		
Cross currency swap contracts – cash flow hedges for foreign currency risk *(note a)*	(150)	**(152)**

Derivatives are mainly used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are accounted for at FVPL.

Hedge effectiveness is determined at the inception of the hedging relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

Hedge ineffectiveness for the Groups' cross currency swap, foreign exchange forward and interest rate swap contracts may occur due to:

– differences in critical terms between the hedged items and the hedging instruments; and

– changes in credit risk of the derivative counterparty.

30 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Cash flow hedges for foreign currency risk

For borrowings denominated in foreign currencies, the Groups enter into cross currency swap contracts and a foreign exchange forward contract to hedge the foreign currency risk. The Groups perform qualitative assessment of hedge effectiveness. As the cross currency swap contracts and the foreign exchange forward contract have similar critical terms as the hedged item, such as notional amount, maturity dates and payment dates, the economic relationship exists between the hedged item and the hedged instrument.

The effects of the foreign currency related hedging instruments on the Groups' financial position and performance are as follows:

	2017	**2018**
Carrying amount (assets/(liabilities))	HK$33 million	**(HK$36 million)**
Notional amount	EUR 200 million and US$2,126 million	**EUR 200 million and US$2,126 million**
Maturity date	January 2020 to April 2027	**January 2020 to April 2027**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instrument during the year	(HK$204 million)	**(HK$107 million)**
Change# in value of the hedged item during the year	HK$255 million	**HK$126 million**
Weighted average hedged exchange rate for the year	EUR1:HK$8.32 US$1:HK$7.75	**EUR1:HK$8.32 US$1:HK$7.75**

* The hedge ratio is 1:1 as the notional amount and timing of the hedging instruments match with that of the hedged items.

\# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

b. Cash flow hedges for interest rate risk

For certain borrowings subject to cash flow interest rate risk, the Groups enter into a floating-to-fixed interest rate swap contract. The Groups perform qualitative assessment of hedge effectiveness. As the interest rate swap contract has similar critical terms as the hedged item, such as notional amount, maturity date and payment dates, the economic relationship exists between the hedged item and hedged instrument.

The effects of the interest rate related hedging instrument on the Groups' financial position and performance are as follows:

	2017	**2018**
Carrying amount (asset)	HK$40 million	**HK$32 million**
Notional amount	HK$1,500 million	**HK$1,500 million**
Maturity date	March 2021	**March 2021**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instrument during the year	(HK$22 million)	**(HK$9 million)**
Change# in value of the hedged item during the year	HK$25 million	**HK$11 million**
Receive leg/pay leg interest ratio	0.61	**1.47**

* The hedge ratio is 1:1 as the notional amount and timing of the hedging instrument match with that of the hedged item.

\# Positive change refers to increase in net assets, whereas negative change refers to decrease in net assets.

30 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Hedging reserve and costs of hedging reserve

The Groups' hedging reserve and costs of hedging reserve relate to the following hedging instruments:

In HK$ million	Cash flow hedge for foreign currency risk	Cash flow hedge for interest rate risk	Total
Hedging reserve			
At January 1, 2017	430	61	491
Cash flow hedges:			
– effective portion of changes in fair value	(255)	(25)	(280)
– transfer from equity to consolidated income statement	(332)	–	(332)
At December 31, 2017	(157)	36	(121)
Changes in accounting policies *(note 5(d))*	242	10	252
At January 1, 2018 (restated)	**85**	**46**	**131**
Cash flow hedges:			
– effective portion of changes in fair value	**(126)**	**(11)**	**(137)**
– transfer from equity to consolidated income statement	**35**	**–**	**35**
At December 31, 2018	**(6)**	**35**	**29**

In HK$ million	Cash flow hedge for foreign currency risk
Costs of hedging reserve	
At January 1 and December 31, 2017	–
Changes in accounting policies *(note 5(d))*	(208)
At January 1, 2018 (restated)	**(208)**
Costs of hedging	**39**
At December 31, 2018	**(169)**

31 EMPLOYEE BENEFITS

a. Employee retirement benefits – Defined contribution retirement schemes

The Groups operate defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Groups.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a current cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately upon the completion of the services in the relevant service period.

Forfeited contributions totaling approximately HK$14 million (2017: approximately HK$13 million) were utilized during the year ended December 31, 2018 to reduce future contributions and no forfeited contribution was available at the end of the reporting period.

31 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits

PCCW and the Groups operate the following share option schemes and share award schemes:

Share option schemes

- Share option scheme of PCCW adopted on May 8, 2014 (the "PCCW 2014 Scheme").
- Share Stapled Units option scheme of HKT Trust and the Company conditionally adopted on November 7, 2011 (the "2011-2021 Option Scheme").

Share award schemes

- Share award schemes of PCCW namely the Purchase Scheme and the Subscription Scheme (collectively the "PCCW Share Award Schemes").
- Share Stapled Units award schemes of the Company namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "Share Stapled Units Award Schemes").

The details of the 2011-2021 Option Scheme and the Share Stapled Units Award Schemes are disclosed under sections "Share Stapled Units Option Scheme" and "Share Stapled Units Award Schemes" in the Combined Report of the Directors of the 2018 Annual Report of HKT Trust and the Company.

i. Share option schemes

No share options/Share Stapled Unit options have been granted under the PCCW 2014 Scheme and the 2011-2021 Option Scheme since their adoption and up to and including December 31, 2018.

ii. Share award schemes

Subject to the relevant scheme rules of the PCCW Share Award Schemes and the Share Stapled Units Award Schemes, each scheme provides that following the making of an award to a selected participant (including any director or employee of PCCW and its participating companies for the PCCW Share Award Schemes, and any director or employee of the Company or any of its subsidiaries for the Share Stapled Units Award Schemes), the relevant PCCW Shares/Share Stapled Units are held in trust for that selected participant and then shall vest over a period of time determined by the respective 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 PCCW, the Company, the relevant participating company or subsidiary and satisfies any other conditions specified at the time the award is made, notwithstanding that the respective approving body shall be at liberty to waive such conditions. Other than satisfying the vesting conditions, selected participants are not required to provide any consideration in order to acquire the PCCW Shares/Share Stapled Units awarded to him/her under the relevant schemes.

During the year ended December 31, 2018, share-based compensation expenses in respect of the PCCW Shares Award Schemes of HK$27 million (2017: HK$25 million) were recognized in the consolidated income statement and as an obligation in liabilities in the consolidated statement of financial position, respectively.

During the year ended December 31, 2018, share-based compensation expenses in respect of the Share Stapled Units Award Schemes of HK$28 million (2017: HK$25 million) were recognized in the consolidated income statement and employee share-based compensation reserve in the consolidated statement of financial position, respectively.

No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since its adoption and up to and including December 31, 2018.

31 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(1) Movements in the number of PCCW Shares held by the Groups under the PCCW Share Award Schemes and the Share Stapled Units held under the HKT Share Stapled Units Purchase Scheme

	Number of PCCW Shares	
	2017	**2018**
PCCW Share Award Schemes – Purchase Scheme:		
Beginning of year	799,890	**1,143,300**
Purchase from the market by the trustee at weighted average market price of HK$4.46 (2017: HK$4.79) per PCCW Share	2,022,000	**3,206,000**
PCCW Shares vested	(1,678,590)	**(4,348,934)**
End of year	1,143,300	**366**
PCCW Share Award Schemes – Subscription Scheme:		
Beginning of year	9,118,270	**6,994,580**
PCCW Shares vested	(2,123,690)	**(2,517,599)**
End of year	6,994,580	**4,476,981**

	Number of Share Stapled Units	
	2017	**2018**
HKT Share Stapled Units Purchase Scheme:		
Beginning of year	5,197,383	**1,089,787**
Purchase from the market by the trustee at weighted average market price of HK$10.13 (2017: HK$10.44) per Share Stapled Unit	540,000	**2,038,000**
Share Stapled Units vested	(4,647,596)	**(3,127,542)**
End of year	1,089,787	**245**

31 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award

Date of award	Vesting period	Fair value on the date of award HK$	2017 Number of PCCW Shares/Share Stapled Units At January 1, 2017	Awarded	Forfeited	Vested	At December 31, 2017
PCCW Share Award Schemes – Purchase Scheme (PCCW Shares)							
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	535,525	–	–	(535,525)	–
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	197,799	–	–	(197,799)	–
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	197,791	–	–	–	197,791
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	945,266	–	–	(945,266)	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	945,266	–	–	–	945,266
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	1,203,424	–	–	1,203,424
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	1,203,415	–	–	1,203,415
Total			2,821,647	2,406,839	–	(1,678,590)	3,549,896
Weighted average fair value on the date of award (HK$)			5.20	4.60	–	5.23	4.78
PCCW Share Award Schemes – Subscription Scheme (PCCW Shares)							
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	936,146	–	(14,044)	(922,102)	–
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	1,222,917	–	(22,851)	(1,200,066)	–
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,221,936	–	(58,500)	–	1,163,436
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	1,522	–	–	(1,522)	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	–	–	–	1,522
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	1,419,915	(46,052)	–	1,373,863
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	1,418,931	(45,993)	–	1,372,938
Total			3,384,043	2,838,846	(187,440)	(2,123,690)	3,911,759
Weighted average fair value on the date of award (HK$)			5.10	4.60	4.83	5.16	4.72
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	2,881,371	–	(33,202)	(2,848,169)	–
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	1,215	–	(333)	(882)	–
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	749,315	–	(7,148)	(742,167)	–
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	640,488	–	(10,297)	(630,191)	–
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	639,494	–	(26,336)	–	613,158
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	426,187	–	–	(426,187)	–
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	426,187	–	–	–	426,187
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	1,196,587	(20,998)	–	1,175,589
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	1,195,573	(20,945)	–	1,174,628
Total			5,764,257	2,392,160	(119,259)	(4,647,596)	3,389,562
Weighted average fair value on the date of award (HK$)			9.93	10.04	10.01	9.72	10.30

31 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

			2018				
			Number of PCCW Shares/Share Stapled Units				
Date of award	Vesting period	Fair value on the date of award HK$	At January 1, 2018	Awarded	Forfeited	Vested	At December 31, 2018
PCCW Share Award Schemes – Purchase Scheme (PCCW Shares)							
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	197,791	–	–	(197,791)	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	945,266	–	–	(945,266)	–
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	1,203,424	–	–	(1,203,424)	–
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	1,203,415	–	–	(664,338)*	539,077
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	–	1,207,514	–	(669,058)*	538,456
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	–	1,207,501	–	(669,057)*	538,444
Total			3,549,896	2,415,015	–	(4,348,934)	1,615,977
Weighted average fair value on the date of award (HK$)			4.78	4.66	–	4.77	4.64
PCCW Share Award Schemes – Subscription Scheme (PCCW Shares)							
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,163,436	–	(13,221)	(1,150,215)	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	–	–	(1,522)	–
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	1,373,863	–	(13,186)	(1,360,677)	–
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	1,372,938	–	(67,507)	(1,683)*	1,303,748
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	–	1,479,900	(70,799)	(1,751)*	1,407,350
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	–	1,478,862	(70,723)	(1,751)*	1,406,388
Total			3,911,759	2,958,762	(235,436)	(2,517,599)	4,117,486
Weighted average fair value on the date of award (HK$)			4.72	4.66	4.66	4.79	4.64
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	613,158	–	(5,951)	(607,207)	–
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	426,187	–	–	(426,187)	–
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	1,175,589	–	(6,013)	(1,169,576)	–
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	1,174,628	–	(31,184)	(303,277)*	840,167
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	–	1,247,635	(32,829)	(310,648)*	904,158
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	–	1,246,543	(32,757)	(310,647)*	903,139
May 4, 2018	May 4, 2018 to April 10, 2019	10.40	–	100,000	–	–	100,000
May 4, 2018	May 4, 2018 to April 10, 2020	10.40	–	100,000	–	–	100,000
October 5, 2018	October 5, 2018 to October 5, 2019	10.34	–	15,000	–	–	15,000
October 5, 2018	October 5, 2018 to October 5, 2020	10.34	–	15,000	–	–	15,000
November 5, 2018	November 5, 2018 to November 5, 2019	10.66	–	15,000	–	–	15,000
November 5, 2018	November 5, 2018 to November 5, 2020	10.66	–	15,000	–	–	15,000
Total			3,389,562	2,754,178	(108,734)	(3,127,542)	2,907,464
Weighted average fair value on the date of award (HK$)			10.30	9.99	10.02	10.30	10.01

* The PCCW Shares/Share Stapled Units were vested before the respective vesting date pursuant to the delegated authority of the relevant board committees on compassionate grounds.

31 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

ii. Share award schemes *(continued)*

(2) Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award *(continued)*

The fair values of the PCCW Shares and the Share Stapled Units awarded during the year on the dates of award are measured by the respective quoted market prices of the PCCW Shares and the Share Stapled Units at the respective award dates.

The PCCW Shares and the Share Stapled Units unvested had a weighted average remaining vesting period at the end of the year as follows:

	2017	**2018**
PCCW Share Award Schemes – Purchase Scheme (PCCW Shares)	0.60 year	**0.60 year**
PCCW Share Award Schemes – Subscription Scheme (PCCW Shares)	0.61 year	**0.61 year**
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)	0.60 year	**0.64 year**

32 EQUITY OF HKT LIMITED

a. Share capital of HKT Limited

	2017		**2018**	
	Number of shares	Nominal value HK$	**Number of shares**	**Nominal value HK$**
Authorized:				
Ordinary shares of HK$0.0005 each				
Beginning and end of year	20,000,000,000	10,000,000	**20,000,000,000**	**10,000,000**
Preference shares of HK$0.0005 each				
Beginning and end of year	20,000,000,000	10,000,000	**20,000,000,000**	**10,000,000**
Issued and fully paid:				
Ordinary shares of HK$0.0005 each				
Beginning and end of year	7,571,742,334	3,785,871	**7,571,742,334**	**3,785,871**
Preference shares of HK$0.0005 each				
Beginning and end of year	7,571,742,334	3,785,871	**7,571,742,334**	**3,785,871**

32 EQUITY OF HKT LIMITED *(CONTINUED)*

b. Movements in reserves of the Company during the years ended December 31, 2017 and 2018 are as follows:

		2017	
In HK$ million	Share premium	Retained profits	Total
At January 1, 2017	35,113	122	35,235
Total comprehensive income for the year	–	4,806	4,806
Dividend paid in respect of the previous year	–	(2,632)	(2,632)
Interim dividend paid in respect of current year	–	(2,129)	(2,129)
At December 31, 2017	35,113	167	35,280

		2018	
In HK$ million	**Share premium**	**Retained profits**	**Total**
At January 1, 2018	**35,113**	**167**	**35,280**
Total comprehensive income for the year	**–**	**5,077**	**5,077**
Dividend paid in respect of the previous year	**–**	**(2,783)**	**(2,783)**
Interim dividend paid in respect of current year	**–**	**(2,205)**	**(2,205)**
At December 31, 2018	**35,113**	**256**	**35,369**

33 RESERVES

2017 (Restated#)

In HK$ million	Share Premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Other reserves	Employee share-based compensation reserve	Treasury stock	Retained profits	Total
At January 1, 2017 as originally presented	7,769	26,250	12	(347)	491	26	36	(47)	4,898	39,088
Changes in accounting policies#	–	–	–	–	–	–	–	–	(818)	(818)
At January 1, 2017 (restated#)	7,769	26,250	12	(347)	491	26	36	(47)	4,080	38,270
Comprehensive income/(loss)										
Profit for the year	–	–	–	–	–	–	–	–	4,745	4,745
Other comprehensive income/(loss)										
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:										
Exchange differences on translating foreign operations	–	–	181	–	–	–	–	–	–	181
Cash flow hedges:										
– effective portion of changes in fair value	–	–	–	–	(280)	–	–	–	–	(280)
– transfer to consolidated income statement	–	–	–	–	(332)	–	–	–	–	(332)
Total comprehensive income/(loss) for the year	–	–	181	–	(612)	–	–	–	4,745	4,314
Transactions with equity holders										
Contributions by and distributions to equity holders:										
Purchase of Share Stapled Units under the HKT Share Stapled Units Purchase Scheme	–	–	–	–	–	–	–	(6)	–	(6)
Employee share-based compensation	–	–	–	–	–	–	25	–	–	25
Vesting of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	–	(37)	43	(6)	–
Distribution/Dividend paid in respect of the previous year	–	–	–	–	–	–	(2)	–	(2,630)	(2,632)
Interim distribution/dividend declared and paid in respect of the current year	–	–	–	–	–	–	–	–	(2,129)	(2,129)
Total transactions with equity holders	–	–	–	–	–	–	(14)	37	(4,765)	(4,742)
At December 31, 2017	7,769	26,250	193	(347)	(121)	26	22	(10)	4,060	37,842

See note 5 for details regarding the restatement as a result of changes in accounting policies.

33 RESERVES *(CONTINUED)*

In HK$ million	Share Premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Costs of hedging reserve	Other reserves	Employee share-based compensation reserve	Treasury stock	Retained profits	Total
	2018										
At December 31, 2017 as originally presented	7,769	26,250	192	(347)	(121)	–	26	22	(10)	5,230	39,011
Changes in accounting policies#	–	–	1	–	–	–	–	–	–	(1,170)	(1,169)
At December 31, 2017 (restated#)	7,769	26,250	193	(347)	(121)	–	26	22	(10)	4,060	37,842
Changes in accounting policies#	–	–	–	–	252	(208)	–	–	–	(44)	–
At January 1, 2018 (restated#)	7,769	26,250	193	(347)	131	(208)	26	22	(10)	4,016	37,842
Comprehensive income/(loss)											
Profit for the year	–	–	–	–	–	–	–	–	–	4,825	4,825
Other comprehensive income/(loss)											
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:											
Exchange differences on translating foreign operations	–	–	(73)	–	–	–	–	–	–	–	(73)
Cash flow hedges:											
– effective portion of changes in fair value	–	–	–	–	(137)	–	–	–	–	–	(137)
– transfer to consolidated income statement	–	–	–	–	35	–	–	–	–	–	35
Costs of hedging	–	–	–	–	–	39	–	–	–	–	39
Total comprehensive income/(loss) for the year	–	–	(73)	–	(102)	39	–	–	–	4,825	4,689
Transactions with equity holders											
Contributions by and distributions to equity holders:											
Purchase of Share Stapled Units under the HKT Share Stapled Units Purchase Scheme	–	–	–	–	–	–	–	–	(21)	–	(21)
Employee share-based compensation	–	–	–	–	–	–	–	25	–	–	25
Vesting of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	–	–	(31)	31	–	–
Distribution/Dividend paid in respect of the previous year	–	–	–	–	–	–	–	–	–	(2,783)	(2,783)
Interim distribution/dividend declared and paid in respect of the current year	–	–	–	–	–	–	–	–	–	(2,205)	(2,205)
Total transactions with equity holders	–	–	–	–	–	–	–	(6)	10	(4,988)	(4,984)
At December 31, 2018	7,769	26,250	120	(347)	29	(169)	26	16	–	3,853	37,547

\# See note 5 for details regarding the restatement as a result of changes in accounting policies.

34 DEFERRED INCOME TAX

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

In HK$ million	Accelerated tax depreciation and amortization	2017 (Restated) Tax losses	Others	Total
Beginning of year	2,717	(316)	(5)	2,396
Charged/(credited) to the consolidated income statement *(note 14(a))*	306	(180)	1	127
Exchange differences	1	(3)	–	(2)
End of year	3,024	(499)	(4)	2,521

In HK$ million	**Accelerated tax depreciation and amortization**	**2018 Tax losses**	**Others**	**Total**
Beginning of year	**3,024**	**(499)**	**(4)**	**2,521**
Charged to the consolidated income statement *(note 14(a))*	**393**	**14**	**–**	**407**
End of year	**3,417**	**(485)**	**(4)**	**2,928**

b. As at December 31, 2017 and 2018, deferred income tax liabilities/(assets) represent:

In HK$ million	2017 (Restated)	**2018**
Deferred income tax assets:		
– to be recovered after more than 12 months	(433)	**(435)**
– to be recovered within 12 months	(35)	**(30)**
Net deferred income tax assets recognized in the consolidated statement of financial position	(468)	**(465)**
Deferred income tax liabilities:		
– to be recovered after more than 12 months	2,829	**3,233**
– to be recovered within 12 months	160	**160**
Net deferred income tax liabilities recognized in the consolidated statement of financial position	2,989	**3,393**
	2,521	**2,928**

34 DEFERRED INCOME TAX *(CONTINUED)*

c. Deferred income tax assets have been recognized for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable. As at December 31, 2018, the Groups had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$2,119 million (2017: HK$2,207 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$37 million (2017: HK$41 million) and HK$256 million (2017: HK$263 million) will expire within 1 to 5 years and after 5 years from December 31, 2018 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

35 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2018, the Groups had carrier licence fee liabilities payable as follows:

	2017			**2018**		
In HK$ million	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	**Present value of the minimum annual fees**	**Interest expense relating to future periods**	**Total minimum annual fees**
Payable within a period						
– not exceeding one year	173	7	180	**173**	**7**	**180**
– over one year, but not exceeding two years	123	19	142	**123**	**19**	**142**
– over two years, but not exceeding five years	257	75	332	**196**	**45**	**241**
– over five years	75	25	100	**38**	**12**	**50**
	628	126	754	**530**	**83**	**613**
Less: Amounts payable within one year included under current liabilities	(173)	(7)	(180)	**(173)**	**(7)**	**(180)**
Non-current portion	455	119	574	**357**	**76**	**433**

36 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	2017 (Restated)	**2018**
Profit before income tax	5,655	**5,852**
Adjustments for:		
Finance costs, net	1,148	**1,350**
Gain on disposal of an AFS financial asset	(6)	**–**
Provision for impairment on interests in associates	154	**–**
Other gains	(3)	**(2)**
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets, net	(2)	**(1)**
Provision for inventory obsolescence	12	**8**
Impairment loss for trade receivables	259	**211**
Depreciation of property, plant and equipment	1,381	**1,324**
Depreciation of right-of-use assets	1,582	**1,551**
Amortization of intangible assets	1,163	**1,186**
Amortization of land lease premium – interests in leasehold land	13	**13**
Amortization of fulfillment costs	427	**417**
Amortization of customer acquisition costs	763	**852**
Share of results of associates	12	**–**
Share of results of joint ventures	(2)	**16**
Share-based compensation expenses	50	**55**
Increase in PCCW Shares and Share Stapled Units for share award schemes	(15)	**(35)**
Decrease/(increase) in operating assets		
– inventories	(54)	**(339)**
– trade receivables, prepayments, deposits and other current assets	(12)	**(415)**
– contract assets	33	**162**
– amounts due from related companies	18	**(27)**
– restricted cash	(15)	**(37)**
– fulfillment costs	(427)	**(375)**
– customer acquisition costs	(727)	**(873)**
– other non-current assets	(60)	**(111)**
(Decrease)/increase in operating liabilities		
– trade payables	(600)	**(86)**
– accruals and other payables	246	**(367)**
– amount due to a related company	(36)	**–**
– amount due to a fellow subsidiary	(145)	**763**
– advances from customers	(24)	**25**
– contract liabilities	163	**185**
– other long-term liabilities	(5)	**16**
Cash generated from operations	10,946	**11,318**
Interest received	26	**39**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(670)	**(684)**
– Overseas profits tax paid	(41)	**(14)**
Net cash generated from operating activities	10,261	**10,659**

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

b. Movements of financial (assets)/liabilities arising from financing activities

Movements of financial (assets)/liabilities arising from financing activities are as follows:

In HK$ million	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Long-term borrowings	2017 (Restated) Derivative financial instruments, net	Lease liabilities	Total
As at January 1, 2017	–	178	38,193	(263)	2,614	40,722
Cash flows in financing activities						
New borrowings raised, net	–	–	5,275	–	–	5,275
Finance costs (paid)/received	–	(877)	–	21	–	(856)
Repayments of borrowings	–	–	(4,650)	–	–	(4,650)
Payment for lease liabilities (including interests)	–	–	–	–	(1,661)	(1,661)
Classified as cash flows in investing activities *(note 38(b)(i))*	–	–	(130)	–	–	(130)
Non-cash movements	(14)	886	458	169	1,511	3,010
As at December 31, 2017	(14)	187	39,146	(73)	2,464	41,710

In HK$ million	**Prepaid finance costs (included in prepayments, deposits and other current assets)**	**Interest payable (included in accruals and other payables)**	**Long-term borrowings**	**2018** **Derivative financial instruments, net**	**Lease liabilities**	**Total**
As at January 1, 2018	**(14)**	**187**	**39,146**	**(73)**	**2,464**	**41,710**
Cash flows in financing activities						
New borrowings raised, net	**–**	**–**	**13,616**	**–**	**–**	**13,616**
Finance costs (paid)/received	**–**	**(962)**	**–**	**76**	**–**	**(886)**
Repayments of borrowings	**–**	**–**	**(12,543)**	**–**	**–**	**(12,543)**
Payment for lease liabilities (including interests)	**–**	**–**	**–**	**–**	**(1,665)**	**(1,665)**
Classified as cash flows in investing activities *(note 38(b)(i))*	**–**	**–**	**(130)**	**–**	**–**	**(130)**
Non-cash movements	**4**	**1,036**	**80**	**1**	**2,394**	**3,515**
As at December 31, 2018	**(10)**	**261**	**40,169**	**4**	**3,193**	**43,617**

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

c. Acquisition of The Club Travel Services Limited (formerly known as Pioneer Travel Services Limited) ("Club Travel")

On July 30, 2018, the Groups completed the acquisition of the entire issued share capital of Club Travel, a private company incorporated in Hong Kong. Club Travel is a licensed travel agent engages in the provision of travel services. The acquisition helps the Groups to handle travel arrangements for customers and some internal users. The aggregate consideration was not material to the Groups.

d. Analysis of cash and cash equivalents

In HK$ million	2017	**2018**
Total cash and bank balances	3,718	**3,145**
Less: Short-term deposits	(450)	**(523)**
Restricted cash	(51)	**(88)**
Cash and cash equivalents as at December 31,	3,217	**2,534**

37 CAPITAL MANAGEMENT

The Groups' primary objectives when managing capital are to safeguard the Groups' ability to continue as a going concern, so that they can continue to provide returns for equity holders of the Groups and benefits for other stakeholders to support the Groups' stability and growth; and to earn a margin commensurate with the level of business and market risks in the Groups' operation.

The Groups monitor capital by reviewing the level of capital that is at the disposal of the Groups ("Adjusted Capital"), taking into consideration the future capital requirements of the Groups, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises all components of equity.

The Groups are not subject to externally imposed capital requirements, except for the debt covenant requirement of loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by the Bermuda Monetary Authority. A subsidiary of the Groups also has a minimum capital requirement as a condition for a stored value facilities licence granted by the Hong Kong Monetary Authority.

38 FINANCIAL INSTRUMENTS

The tables below analyze financial instruments by category:

In HK$ million	Financial assets at amortized cost	AFS financial assets	2017 (Restated) Financial assets at FVPL	Derivatives used for hedging	Total
Non-current assets					
AFS financial assets	–	77	–	–	77
Financial assets at FVPL	–	–	20	–	20
Derivative financial instruments*	–	–	–	223	223
Other non-current assets	275	–	–	–	275
	275	77	20	223	595
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	2,387	–	–	–	2,387
Trade receivables, net	2,787	–	–	–	2,787
Amounts due from related companies	77	–	–	–	77
Financial assets at FVPL	–	–	17	–	17
Restricted cash	51	–	–	–	51
Short-term deposits	450	–	–	–	450
Cash and cash equivalents	3,217	–	–	–	3,217
	8,969	–	17	–	8,986
Total	9,244	77	37	223	9,581

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	Derivatives used for hedging	2017 (Restated) Other financial liabilities at amortized cost	Total
Current liabilities			
Trade payables	–	(1,874)	(1,874)
Accruals and other payables	–	(5,111)	(5,111)
Carrier licence fee liabilities	–	(173)	(173)
Amount due to a fellow subsidiary	–	(969)	(969)
Lease liabilities	–	(1,157)	(1,157)
	–	(9,284)	(9,284)
Non-current liabilities			
Long-term borrowings	–	(39,146)	(39,146)
Derivative financial instruments	(150)	–	(150)
Carrier licence fee liabilities	–	(455)	(455)
Lease liabilities	–	(1,307)	(1,307)
Other long-term liabilities	–	(596)	(596)
	(150)	(41,504)	(41,654)
Total	(150)	(50,788)	(50,938)

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

	2018				
In HK$ million	Financial assets at amortized cost	Financial assets at FVOCI	Financial assets at FVPL	Derivatives used for hedging	Total
Non-current assets					
Financial assets at FVOCI	–	77	–	–	77
Financial assets at FVPL	–	–	8	–	8
Derivative financial instruments*	–	–	–	148	148
Other non-current assets	373	–	–	–	373
	373	77	8	148	606
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	1,595	–	–	–	1,595
Trade receivables, net	3,727	–	–	–	3,727
Amounts due from related companies	102	–	–	–	102
Financial assets at FVPL	–	–	12	–	12
Restricted cash	88	–	–	–	88
Short-term deposits	523	–	–	–	523
Cash and cash equivalents	2,534	–	–	–	2,534
	8,569	–	12	–	8,581
Total	8,942	77	20	148	9,187

* As at December 31, 2018, derivative financial instruments of HK$15 million (2017: HK$8 million) related to the foreign exchange forward contract with an aggregate notional contract amount of US$376 million (approximately HK$2,905 million) were designated as cash flow hedge of US$300 million zero coupon guaranteed notes due 2030. These guaranteed notes may be redeemed at the option of the Groups on January 15, 2020 at an early redemption amount of US$376 million. Refer to notes 29(b) and 30(a) for details of the guaranteed notes and the foreign exchange forward contract respectively.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

	2018		
In HK$ million	**Derivatives used for hedging**	**Other financial liabilities at amortized cost**	**Total**
Current liabilities			
Trade payables	–	**(1,787)**	**(1,787)**
Accruals and other payables	–	**(4,757)**	**(4,757)**
Carrier licence fee liabilities	–	**(173)**	**(173)**
Amount due to a fellow subsidiary	–	**(1,675)**	**(1,675)**
Lease liabilities	–	**(1,293)**	**(1,293)**
	–	**(9,685)**	**(9,685)**
Non-current liabilities			
Long-term borrowings	–	**(40,169)**	**(40,169)**
Derivative financial instruments	**(152)**	–	**(152)**
Carrier licence fee liabilities	–	**(357)**	**(357)**
Lease liabilities	–	**(1,900)**	**(1,900)**
Other long-term liabilities	–	**(829)**	**(829)**
	(152)	**(43,255)**	**(43,407)**
Total	**(152)**	**(52,940)**	**(53,092)**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

Exposure to credit, liquidity, and market risk (including foreign currency risk and interest rate risk) arises in the normal course of the Groups' business. The Groups are also exposed to equity price risk arising from their equity investments in other entities. Exposure to these risks is controlled by the Groups' financial management policies and practices described below.

a. Credit risk

The Groups' credit risk is primarily attributable to cash and cash equivalents, trade receivables, contract assets, amounts due from related companies, interest receivable, lease receivables, derivative financial instruments, and other receivables. Management has policies in place and exposure to these credit risks are monitored on an ongoing basis.

The Groups' 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 Groups maintain a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue balances are requested to settle all outstanding balances before any further credit is granted. Normally, the Groups do not obtain collateral from customers.
As at December 31, 2017 and 2018, the Groups did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Groups' exposure to credit risk arising from trade receivables are set out in note 28(b).

The overall impact of impairment of the contract assets on the consolidated financial statements is considered by management. Management considered the lifetime expected losses with respect to these contract assets were minimal as at December 31, 2018 and the Groups made no write-offs or provision for these contract assets during the year.

Amounts due from related companies and other receivables are considered to have low credit risk. These assets are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, provision for impairment loss is made for estimated irrecoverable amounts. As at December 31, 2017 and 2018, the amounts due from related companies and other receivables were fully performing.

Derivative financial instruments, interest receivable and cash and cash equivalents are considered to have low credit risk. These assets are executed with creditworthy financial institutions or investment counterparties and the Groups do not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Groups as disclosed in note 40, the Groups do not provide any other guarantees which would expose the Groups to credit risk.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk

The Groups' policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Groups have sufficient cash and committed facilities to fund their operations and debt servicing requirements.

The Groups are subject to certain corporate guarantee obligations to guarantee performance of their subsidiaries in the normal course of their businesses. Refer to note 40 for details.

The following tables detail the remaining contractual maturities at the end of the reporting periods of the Groups' non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Groups can be required to pay:

	2017 (Restated)					
In HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying Amount
Current liabilities						
Trade payables	(1,874)	–	–	–	(1,874)	(1,874)
Accruals and other payables	(5,111)	–	–	–	(5,111)	(5,111)
Carrier licence fee liabilities	(180)	–	–	–	(180)	(173)
Amount due to a fellow subsidiary	(969)	–	–	–	(969)	(969)
Lease liabilities	(1,166)	–	–	–	(1,166)	(1,157)
	(9,300)	–	–	–	(9,300)	(9,284)
Non-current liabilities						
Long-term borrowings *(note (i))*	(937)	(10,198)	(14,064)	(21,134)	(46,333)	(39,146)
Derivative financial instruments	1	(1)	(5)	(172)	(177)	(150)
Carrier licence fee liabilities	–	(142)	(332)	(100)	(574)	(455)
Lease liabilities	–	(736)	(476)	(206)	(1,418)	(1,307)
Other long-term liabilities *(note (ii))*	(6)	(1)	(25)	(1,046)	(1,078)	(596)
	(942)	(11,078)	(14,902)	(22,658)	(49,580)	(41,654)
Total	(10,242)	(11,078)	(14,902)	(22,658)	(58,880)	(50,938)

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

	2018					
In HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying Amount
Current liabilities						
Trade payables	(1,787)	–	–	–	(1,787)	(1,787)
Accruals and other payables	(4,757)	–	–	–	(4,757)	(4,757)
Carrier licence fee liabilities	(180)	–	–	–	(180)	(173)
Amount due to a fellow subsidiary	(1,675)	–	–	–	(1,675)	(1,675)
Lease liabilities	(1,309)	–	–	–	(1,309)	(1,293)
	(9,708)	–	–	–	(9,708)	(9,685)
Non-current liabilities						
Long-term borrowings *(note (i))*	(954)	(2,985)	(26,607)	(16,835)	(47,381)	(40,169)
Derivative financial instruments	1	(1)	(6)	(173)	(179)	(152)
Carrier licence fee liabilities	–	(142)	(241)	(50)	(433)	(357)
Lease liabilities	–	(723)	(940)	(427)	(2,090)	(1,900)
Other long-term liabilities *(note (ii))*	(1)	(14)	(768)	(1,039)	(1,822)	(829)
	(954)	(3,865)	(28,562)	(18,524)	(51,905)	(43,407)
Total	(10,662)	(3,865)	(28,562)	(18,524)	(61,613)	(53,092)

(i) As at December 31, 2018, bank borrowings of HK$1,690 million (2017: HK$1,820 million) included in long-term borrowings were drawn for financing a 15-year 3G spectrum utilization fee paid upfront by the Groups.

(ii) As at December 31, 2018, other long-term liabilities included HK$232 million (2017: HK$164 million) of long-term interest payables, which related to interest drawn under an arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with a notional contract amount of EUR200 million (approximately HK$1,665 million) (2017: EUR200 million (approximately HK$1,665 million)) and included HK$43 million (2017: nil) of long-term interest payable, which related to interest drawn under the arrangements with banks to receive agreed amounts by installments to settle interest payments of fixed-to-fixed cross currency swap contracts with an aggregate notional contract amount of US$500 million (approximately HK$3,879 million) (2017: nil). Refer to notes 29(d), 29(a) and 30(a) for details of the guaranteed notes and the derivative financial instruments respectively.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposure deriving from the Groups' operation, investment and funding activities. As a matter of policy, the Groups enter into cross currency swap contracts, interest rate swap contracts, foreign exchange forward contracts and other financial instruments to manage their exposure to market risk directly related to their operations and financing. The Groups do not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire high market risk instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the board of directors of the Company, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Groups' business.

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

In the normal course of business, the Groups use the above-mentioned financial instruments to limit their exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

i. Foreign currency risk

The Groups operate internationally and are exposed to foreign currency risk arising from various currency exposure. Foreign currency risk arises when the Groups' recognized assets and liabilities are denominated in a currency that is not the functional currency of the relevant group entity.

The Groups' borrowings are denominated in the Hong Kong dollars, United States dollars or Euro. As at December 31, 2017 and 2018, all of the Groups' borrowings denominated in United States dollars/Euro were swapped into Hong Kong dollars by the cross currency swap contracts and foreign exchange forward contract. Given this, management does not expect that there will be any significant foreign currency risk associated with the Groups' borrowings. Cross currency swap contracts and foreign exchange forward contract outstanding as at December 31, 2018 with an aggregate notional contract amount of US$2,126 million (approximately HK$16,478 million) (2017: US$2,126 million (approximately HK$16,478 million)) and EUR200 million (approximately HK$1,665 million) (2017: EUR200 million (approximately HK$1,665 million)) were designated or re-designated as cash flow hedges against foreign currency risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Groups ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary to address short-term imbalances.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following table details the Groups' exposure at the end of the reporting period to currency risk arising from significant monetary assets or liabilities denominated in foreign currencies.

In HK$ million	2017 (Restated) United States Dollars	2017 (Restated) Euro	2017 (Restated) Renminbi	**2018 United States Dollars**	**2018 Euro**	**2018 Renminbi**
Trade receivables	1,501	227	105	**1,359**	**194**	**142**
Amounts due from related companies	–	–	10	**–**	**–**	**18**
Restricted cash	–	–	–	**–**	**–**	**1**
Cash and cash equivalents	616	130	101	**722**	**191**	**134**
Trade payables	(1,288)	(115)	(55)	**(1,140)**	**(65)**	**(71)**
Lease liabilities	(129)	(13)	(109)	**(142)**	**(8)**	**(67)**
Long-term borrowings	(15,802)	(1,830)	–	**(15,871)**	**(1,761)**	**–**
Gross exposure arising from monetary (liabilities)/assets	(15,102)	(1,601)	52	**(15,072)**	**(1,449)**	**157**
Net monetary assets denominated in respective entities' functional currencies	(80)	(66)	(61)	**(128)**	**(108)**	**(158)**
Borrowings with hedging instruments	15,802	1,830	–	**15,871**	**1,761**	**–**
Overall net exposure	620	163	(9)	**671**	**204**	**(1)**

As at December 31, 2018, if the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the profit after tax of the Groups for the year would have increased/decreased by approximately HK$6 million (2017 (restated): HK$5 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Groups as at December 31, 2018 would have collectively debited/credited by approximately HK$159 million (2017: HK$158 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts and a foreign exchange forward contract.

As at December 31, 2018, if the Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant, the profit after tax of the Groups for the year would have increased/decreased by approximately HK$9 million (2017: HK$7 million), mainly as a result of foreign exchange gains/losses on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Groups as at December 31, 2018 would have collectively debited/credited by approximately HK$88 million (2017: HK$92 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by a cross currency swap contract.

As at December 31, 2018, if the Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, there would be no material impact on the profit after tax for the year of the Groups (2017: no material impact).

The sensitivity analysis has been determined assuming that the change in foreign exchange rates occurred as at the end of the reporting period and applied to the Groups' exposure to currency risk for monetary assets and liabilities in existence at those dates, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2017 and 2018.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk

Given the relatively insignificant amount of interest-bearing assets, the Groups' income and operating cash flows are substantially independent of changes in market interest rates.

The Groups' interest rate risk arises primarily from long-term borrowings. Borrowings at variable rates and fixed rates expose the Groups to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Groups draw under long-term revolving credit facilities which are denominated in Hong Kong dollars and pay interest at floating rates.

The Groups have entered into a floating-to-fixed interest rate swap contract to hedge the cash flow interest rate risk arising from the Groups' certain floating rate long-term borrowings.

The following table details the interest rate profile of the Groups' borrowings at the end of the reporting period, after taking into account the effect of the cash flow hedging instruments.

	2017		**2018**	
	Effective interest rate %	HK$ million	**Effective interest rate %**	**HK$ million**
Net fixed rate borrowings:				
Long-term bank borrowings with hedging instruments	1.84	1,488	**1.84**	**1,492**
Long-term borrowings with hedging instruments	3.72	17,632	**3.84**	**17,632**
Variable rate borrowings:				
Long-term bank borrowings	1.63	20,026	**2.49**	**21,045**
Total borrowings		39,146		**40,169**

As at December 31, 2018, if the interest rate on variable rate borrowings had increased/decreased by 50 basis points (2017: 50 basis points), with all other variables held constant, the Groups' profit after tax for the year would have decreased/increased by approximately HK$89 million (2017: HK$84 million), mainly as a result of higher/lower interest expense on floating rate borrowings in existence at the end of the reporting period.

The sensitivity analysis above has been determined assuming that the change in interest rate occurred at the end of the reporting period and applied to the exposure to interest rate risk for the Groups' floating rate borrowings in existence at those dates. The 50 basis points (2017: 50 basis points) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis was performed on the same methodology for 2017 and 2018.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

iii. Equity price risk

The Groups are exposed to equity price changes arising from equity investments. Other than unquoted equity securities held for strategic purposes, financial assets at FVPL are listed on recognized stock exchange markets.

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

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

d. Fair values of financial liabilities measured at amortized cost

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

	2017		**2018**	
In HK$ million	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Long-term borrowings	39,146	39,271	**40,169**	**39,736**

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 (see note 38(e)).

e. Estimation of fair values

Financial instruments carried at fair value are analyzed by valuation method and the different levels have been defined as follows:

– Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for the financial assets held by the Groups is the current bid price. These instruments are included in level 1.

– Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

– Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The following tables present the Groups' financial assets and liabilities that are measured at fair value as at December 31, 2017 and 2018:

	2017			
In HK$ million	Level 1	Level 2	Level 3	Total
Assets				
AFS financial assets				
– Unlisted securities	–	–	77	77
Derivative financial instruments	–	223	–	223
Financial assets at FVPL				
– Listed securities (non-current)	20	–	–	20
– Listed securities (current)	17	–	–	17
Total assets	37	223	77	337
Liabilities				
Derivative financial instruments	–	(150)	–	(150)

	2018			
In HK$ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at FVOCI				
– Unlisted securities	**–**	**–**	**77**	**77**
Derivative financial instruments	**–**	**148**	**–**	**148**
Financial assets at FVPL				
– Listed securities (non-current)	**8**	**–**	**–**	**8**
– Listed securities (current)	**12**	**–**	**–**	**12**
Total assets	**20**	**148**	**77**	**245**
Liabilities				
Derivative financial instruments	**–**	**(152)**	**–**	**(152)**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

Instruments included in level 1 comprise PCCW shares acquired or subscribed under PCCW Share Award Schemes and classified as financial assets at fair value through profit or loss.

Instruments included in level 2 comprise cross currency swap contracts, an interest rate swap contract and a foreign exchange forward contract classified as derivative financial instruments. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates. The fair value of the foreign exchange forward contract is calculated based on the prevailing market foreign currency exchange rates quoted for contracts with same notional amounts adjusted for maturity differences.

Instruments included in level 3 comprise an unlisted equity investment which is classified as financial assets at FVOCI. During the year ended December 31, 2018, there was no movement in the financial assets at FVOCI.

For unlisted securities or financial assets without an active market, the Groups establish the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2017 and 2018.

There were no material changes in valuation techniques during the years ended December 31, 2017 and 2018.

f. Groups' valuation process

The Groups perform and monitor 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.

39 COMMITMENTS

a. Capital

In HK$ million	2017	**2018**
Authorized and contracted for acquisition of property, plant and equipment	823	**783**

39 COMMITMENTS *(CONTINUED)*

b. Committed leases not yet commenced

As at December 31, 2018, the total future lease payments for leases committed but not yet commenced are payable as follows:

Land and buildings

In HK$ million	2017	**2018**
Within 1 year	128	**18**
After 1 year but within 5 years	572	**33**
After 5 years	413	**–**
	1,113	**51**

Network capacity and equipment

In HK$ million	2017	**2018**
Within 1 year	20	**110**
After 1 year but within 5 years	66	**2**
After 5 years	19	**–**
	105	**112**

c. Others

As at December 31, 2018, the Groups have other outstanding commitments as follows:

In HK$ million	2017	**2018**
Operating expenditure commitments	214	**3,514**

39 COMMITMENTS *(CONTINUED)*

d. The maturity analysis of the lease receivables is as follows:

In HK$ million	2017 (Restated)	**2018**
Within 1 year	47	**71**
More than 1 year but within 2 years	36	**56**
More than 2 years but within 3 years	23	**42**
More than 3 years but within 4 years	7	**40**
More than 4 years but within 5 years	8	**33**
More than 5 years	112	**106**
Total contractual undiscounted lease receivables*	233	**348**
Less: interest income relating to future periods	(34)	**(37)**
Carrying amount	199	**311**
Less: amounts receivables within one year included under current assets	(43)	**(67)**
Non-current portion	156	**244**

* The majority of the leases typically run for periods of 3 to 15 years.

As at December 31, 2018, the Groups also lease out assets under operating leases and the total future minimum lease receipts under non-cancellable operating leases are HK$99 million (2017: HK$98 million), of which HK$49 million (2017: HK$41 million) is receivable within 1 year, HK$30 million (2017: HK$30 million) is receivable after 1 year but within 2 years, HK$15 million (2017: HK$14 million) is receivable after 2 years but within 3 years and HK$5 million (2017: HK$13 million) is receivable after 3 years but within 4 years. The majority of the leases typically run for periods of 1 to 15 years. None of the leases include material contingent rent.

40 CONTINGENT LIABILITIES

In HK$ million	2017	**2018**
Performance guarantees	237	**249**
Guarantees given to banks in respect of credit facilities granted to an associate	60	**56**
Others	4	**8**
	301	**313**

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

41 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2018 was HK$27,442 million (2017: HK$27,381 million) of which the unused facilities amounted to HK$4,710 million (2017: HK$5,698 million).

All of the Groups' banking facilities are subject to the fulfillment of covenants relating to certain of the Groups' consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Groups were to breach the covenants, the drawn down facilities would become payable on demand. The Groups regularly monitor their compliance with these covenants. As at December 31, 2018, the Groups were in compliance with the covenants relating to the drawn down facilities. Further details of the Groups' management of liquidity risk are set out in note 38(b).

Summaries of long-term borrowings are set out in note 29.

42 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2018

Up to the date of approval of these consolidated financial statements, the HKICPA has issued the following new and amended standards and interpretations which are not yet effective for the accounting period ended December 31, 2018 and which have not been early adopted in these consolidated financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Revised) (Amendments)	Presentation of Financial Statements	January 1, 2020
HKAS 8 (Amendments)	Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2020
HKAS 19 (2011) (Amendments)	Employee Benefits	January 1, 2019
HKAS 28 (2011) (Amendments)	Investments in Associates and Joint Ventures	January 1, 2019
HKFRS 3 (Revised) (Amendments)	Business Combinations	January 1, 2020
HKFRS 9 (2014) (Amendments)	Financial Instruments	January 1, 2019
HKFRS 17	Insurance Contracts	January 1, 2021
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	January 1, 2019
Annual Improvements to HKFRSs 2015-2017 Cycle		January 1, 2019

Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2018 and have not been early adopted in these consolidated financial statements.

None of the above is expected to have a significant effect on the result of operation and financial position of the Groups.

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2018

Results

In HK$ million	2014*	2015*	2016*	2017 (Restated)	**2018**
Revenue by Principal Activity					
Telecommunications Services	19,309	20,205	20,547	20,674	**21,128**
Mobile	8,950	14,317	13,063	12,238	**13,825**
Other businesses	564	207	237	155	**234**
	28,823	34,729	33,847	33,067	**35,187**
Cost of sales	(12,053)	(15,539)	(14,445)	(15,972)	**(17,980)**
General and administrative expenses	(12,416)	(13,287)	(12,523)	(10,137)	**(9,991)**
Other gains/(losses), net	151	18	(51)	(145)	**2**
Finance costs, net	(1,124)	(1,310)	(1,107)	(1,148)	**(1,350)**
Share of results of equity accounted entities	(81)	(25)	(23)	(10)	**(16)**
Profit before income tax	3,300	4,586	5,698	5,655	**5,852**
Income tax	(242)	(600)	(771)	(898)	**(1,010)**
Profit for the year	3,058	3,986	4,927	4,757	**4,842**
Attributable to:					
Holders of Share Stapled Units/shares of the Company	2,991	3,949	4,889	4,745	**4,825**
Non-controlling interests	67	37	38	12	**17**

Assets and Liabilities

As at December 31 In HK$ million	2014*	2015*	2016 (Restated)	2017 (Restated)	**2018**
Total non-current assets	77,542	77,570	83,316	84,315	**86,836**
Total current assets	12,258	12,347	10,780	10,857	**10,729**
Total current liabilities	(14,415)	(14,778)	(11,870)	(11,687)	**(12,141)**
Total non-current liabilities	(37,346)	(37,404)	(43,885)	(45,595)	**(47,830)**
Net assets	38,039	37,735	38,341	37,890	**37,594**

* Comparative figures of the results for the years ended December 31, 2014, 2015 and 2016 and assets and liabilities as at December 31, 2014 and 2015 have not been restated to reflect the impacts of the adoption of HKFRS 15, HKFRS 16 and HKFRS 9 (2014) as the directors are of the opinion that it is costs over benefits to do so.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

Opinion

What we have audited

The financial statements of HKT Management Limited (the "Company") set out on pages 190 to 198, which comprise:

- the statement of financial position as at December 31, 2018;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of principal accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Other Information

The directors are responsible for the other information. The other information comprises all of the information included in the HKT Trust and HKT Limited 2018 annual report other than the financial statements of the Company, the consolidated financial statements of HKT Trust and HKT Limited and our auditor's reports thereon.

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

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

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

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

Responsibilities of Directors and the Audit Committee for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 22, 2019

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

INCOME STATEMENT OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2018

In HK$'000	Note	2017	**2018**
Management fee income		54	**54**
General and administrative expenses		(54)	**(54)**
Result before income tax	5	–	**–**
Income tax	6	–	**–**
Result for the year		–	**–**

The notes on pages 195 to 198 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2018

In HK$'000	2017	**2018**
Result for the year	–	**–**
Other comprehensive income	–	**–**
Total comprehensive income for the year	–	**–**

The notes on pages 195 to 198 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF HKT MANAGEMENT LIMITED

As at December 31, 2018

In HK$'000	Note	2017	**2018**
ASSETS AND LIABILITIES			
Current assets			
Amount due from a fellow subsidiary	4(c)	276	**330**
		276	**330**
Current liabilities			
Accruals and other payables		(131)	**(51)**
Amounts due to fellow subsidiaries	4(c)	(145)	**(279)**
		(276)	**(330)**
Net assets		–	**–**
CAPITAL AND RESERVES			
Share capital	7	–	**–**
Reserves		–	**–**
Total equity		–	**–**

Approved and authorized for issue by the board of directors (the "Board") on February 22, 2019 and signed on behalf of the Board by

Li Tzar Kai, Richard
Director

Hui Hon Hing, Susanna
Director

The notes on pages 195 to 198 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2018

In HK$'000	Share capital	2017 Retained Profit	Total
As at January 1, 2017	–	–	–
Comprehensive income			
Result for the year	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	–	–
Transactions with the equity holder of the Company	–	–	–
As at December 31, 2017	–	–	–

In HK$'000	**Share capital**	**2018** **Retained Profit**	**Total**
As at January 1, 2018	**–**	**–**	**–**
Comprehensive income			
Result for the year	**–**	**–**	**–**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**
Transactions with the equity holder of the Company	**–**	**–**	**–**
As at December 31, 2018	**–**	**–**	**–**

The notes on pages 195 to 198 form part of these financial statements.

STATEMENT OF CASH FLOWS OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2018

In HK$'000	2017	**2018**
Operating activities		
Result before income tax	–	**–**
Adjustments for:		
Increase in amount due from a fellow subsidiary	(54)	**(54)**
Increase/(decrease) in accruals and other payables	2	**(80)**
Increase in amounts due to fellow subsidiaries	52	**134**
Net cash generated from operating activities	–	**–**
Investing activities		
Net cash generated from investing activities	–	**–**
Financing activities		
Net cash generated from financing activities	–	**–**
Net change in cash and cash equivalents	–	**–**
Cash and cash equivalents		
Beginning of year	–	**–**
End of year	–	**–**

The notes on pages 195 to 198 form part of these financial statements.

1 GENERAL INFORMATION

HKT Management Limited (the "Company") was incorporated in Hong Kong under the Companies Ordinance on June 14, 2011. Its registered office is located at 39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The Company is an indirect wholly-owned subsidiary of PCCW Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited.

The Company has a limited and specific role, which is to administer the HKT Trust.

The financial statements are presented in thousands units of Hong Kong dollars (HK$'000), unless otherwise stated.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which is a collective term for all individual Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Cap. 622). A summary of the principal accounting policies adopted by the Company is set out below.

b. Basis of preparation of the financial statements

The following new or amended Hong Kong Financial Reporting Standards are mandatory for the first time for the financial year beginning January 1, 2018, but have no material effect on the Company'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*
– HKFRS 9 (2014), *Financial Instruments*
– HKFRS 15, *Revenue from Contracts with Customers*
– HK(IFRIC) – Int 22, *Foreign Currency Transactions and Advance Consideration*
– Annual Improvements to HKFRSs 2014-2016 Cycle published in March 2017 by HKICPA

The Company has early adopted HKFRS 16 *Leases* that is mandatory for the first time for the financial year beginning January 1, 2019 but has no material effect on the Company's reported results and financial position for the current and prior accounting periods. The Company has not early adopted any other new or amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period, details of which are set out in note 10.

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

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

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

Judgements made by management in the application of Hong Kong Financial Reporting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

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

c. Impairment of assets

The Company assesses on forward looking basis the expected credit losses associated with its financial assets carried at amortized cost.

For intercompany receivable, the Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available reasonable and supportive forwarding-looking information. Considerations may include:

– internal credit rating;

– external credit rating (as far as available);

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

– actual or expected significant changes in the operating results of the borrower;

– significant increases in credit risk on other financial instruments of the same borrower; and

– significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrower and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is delinquent and in default status when there are unsettled amounts remaining on the account on the day after the invoice due date.

At each reporting date, the Company measures the loss allowance for the intercompany receivable at an amount equal to the lifetime expected credit losses if the credit risk on that intercompany receivable has increased significantly since initial recognition. If, at the reporting date, the credit risk on an intercompany receivable has not increased significantly since initial recognition, the Company measures the loss allowance for that intercompany receivable at an amount equal to 12-month expected credit losses.

Intercompany receivable is written off when there is no reasonable expectation of recovery. The Company categorizes an intercompany receivable for write off when the intercompany fails to make contractual payments for a period greater than predefined limit. Where the receivable has been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in the income statement.

d. Related parties

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

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

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

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

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

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

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

d. Related parties *(continued)*

For the purposes of these financial statements, a party is considered to be related to the Company if: *(continued)*

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

vii. the entity provides key management personnel services to the Company.

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company has no accounting estimates and judgements that would significantly affect its results and financial position.

4 RELATED PARTY TRANSACTIONS

During the year, the Company had the following significant transaction with a related party:

In HK$'000	2017	**2018**
Management fee receivable from a fellow subsidiary	54	**54**

a. This transaction was carried out after negotiations between the Company and the related party in the ordinary course of business and on the basis of estimated market value as determined by the directors.

b. The directors' emoluments of the Company were borne by a fellow subsidiary of the Company for the years ended December 31, 2017 and 2018.

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

5 RESULT BEFORE INCOME TAX

Result before income tax is stated after charging the following:

In HK$'000	2017	**2018**
Charging:		
Auditor's remuneration	52	**52**

6 INCOME TAX

No Hong Kong profits tax has been provided as the Company does not have any assessable profit during the years ended December 31, 2017 and 2018.

No deferred income tax asset and liability was recognized as at December 31, 2017 and 2018.

7 SHARE CAPITAL

	2017 Number of share	2017 Share capital HK$	**2018 Number of share**	**2018 Share capital HK$**
Issued and fully paid:				
Ordinary share of no par value				
Beginning and end of year	1	1	**1**	**1**

8 CAPITAL MANAGEMENT

The Company has a specific and limited role to administer the HKT Trust. It is not actively engaged in running the telecommunications business which is managed by HKT Limited, a fellow subsidiary of the Company, and the operating subsidiaries of HKT Limited. Therefore, the Company is not subject to externally imposed capital requirements.

9 FINANCIAL INSTRUMENTS

As the principal activity of the Company is to administer the HKT Trust, the Company is not exposed to credit, liquidity and market risk (including foreign currency risk and interest rate risk). Risk management is carried out under policies approved by the board of directors.

10 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2018

Up to the date of approval of these financial statements, the HKICPA has issued the following new and amended standards and interpretations which are not yet effective for the accounting period ended December 31, 2018 and which have not been early adopted in these financial statements:

		Effective for accounting periods beginning on or after
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HKFRS 17	Insurance Contracts	January 1, 2021
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Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2018 and have not been early adopted in these financial statements.

None of the above is expected to have a significant effect on the result of operation and financial position of the Company.

CORPORATE INFORMATION

HKT LIMITED

(incorporated in the Cayman Islands with limited liability)

BOARD OF DIRECTORS

Executive Directors

Li Tzar Kai, Richard *(Executive Chairman)*
Hui Hon Hing, Susanna *(Group Managing Director)*

Non-Executive Directors

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

Independent Non-Executive Directors

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

GROUP GENERAL COUNSEL AND COMPANY SECRETARY OF HKT LIMITED AND HKT MANAGEMENT LIMITED

Bernadette M. Lomas

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

39th Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

SHARE STAPLED UNITS INFORMATION

Board lot:	1,000 units
Issued units as at December 31, 2018:	7,571,742,334 units

DISTRIBUTION

Distribution per share stapled unit for the year ended December 31, 2018:

Interim	29.12 HK cents
Final	39.17 HK cents*

** Subject to the approval of holders of share stapled units at the 2019 Annual General Meeting*

FINANCIAL CALENDAR

Announcement of 2018 Annual Results	February 22, 2019
2019 Annual General Meeting	May 9, 2019
Closure of books	May 16–17, 2019 (both days inclusive)
Record date for 2018 final distribution	May 17, 2019
Payment of 2018 final distribution	on or around May 31, 2019

INVESTOR RELATIONS

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

HKT MANAGEMENT LIMITED

(incorporated in Hong Kong with limited liability)

(THE TRUSTEE-MANAGER OF THE HKT TRUST)

BOARD OF DIRECTORS

Executive Directors

Li Tzar Kai, Richard *(Executive Chairman)*
Hui Hon Hing, Susanna *(Group Managing Director)*

Non-Executive Directors

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

Independent Non-Executive Directors

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

REGISTERED OFFICE

39th Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

SHARE STAPLED UNITS REGISTRAR AND HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

LISTING

The share stapled units of the HKT Trust and HKT Limited are listed on The Stock Exchange of Hong Kong Limited. Certain guaranteed notes issued by subsidiaries of HKT Limited are listed on the Singapore Exchange Securities Trading Limited and the Taipei Exchange in Taiwan, China.

STOCK CODES

The Stock Exchange of Hong Kong Limited	6823
Reuters	6823.HK
Bloomberg	6823 HK

WEBSITE OF HKT LIMITED

www.hkt.com

ANNUAL REPORT 2018

This Annual Report 2018 in both English and Chinese is now available in printed form from HKT Limited, HKT Management Limited and the Share Stapled Units Registrar, and in accessible format on the websites of HKT Limited (www.hkt.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Holders of share stapled units who:

A) received the Annual Report 2018 using electronic means through the website of HKT Limited may request a printed copy, or
B) received the Annual Report 2018 in either English or Chinese may request a printed copy of the other language version

by writing or sending email to HKT Limited and/or
HKT Management Limited c/o the Share Stapled Units Registrar at:

Computershare Hong Kong Investor Services Limited
Investor Communications Centre
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8688
Fax: +852 2865 0990
Email: hkt@computershare.com.hk

Holders of share stapled units who have chosen (or are deemed to have agreed) to receive the corporate communications of the HKT Trust, HKT Limited and HKT Management Limited (including but not limited to the Annual Report 2018) using electronic means through the website of HKT Limited and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2018 will promptly, upon request in writing or by email to the Share Stapled Units Registrar, be sent the Annual Report 2018 in printed form, free of charge.

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

Forward-Looking Statements

This annual report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict”, “is confident”, “has confidence” and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of HKT about the business, industry and markets in which we operate.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- increased competition in the Hong Kong telecommunications market;
- possible negative effects of potentially new legislation, regulations, guidelines, decisions or directives;
- possible negative effects of potentially new regulatory developments;
- our ability to implement our business plan as a consequence of our substantial debt;
- our exposure to interest rate risk;
- our ability to obtain additional capital; and
- our ability to execute our business strategy, including our ability to enter into business combinations and restructuring, strategic investments and acquisitions and challenges in growing business organically.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of HKT as at the date of this annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

HKT Trust (A trust constituted on November 7, 2011 under the laws of Hong Kong and managed by HKT Management Limited)
and
HKT Limited (Incorporated in the Cayman Islands with limited liability)

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The Share Stapled Units are listed on The Stock Exchange of Hong Kong Limited (SEHK: 6823).