PCCW®

Annual Report 2018

Stock Code: 0008

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CORPORATE PROFILE

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

The Company holds a majority interest in the HKT Trust and HKT Limited, Hong Kong's premier telecommunications service provider and leading operator in fixed-line, broadband and mobile communication services. Beyond connectivity, HKT provides innovative smart living and business services to individuals and enterprises.

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

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

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

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

Employing over 23,600 staff, PCCW maintains a presence in Hong Kong, mainland China as well as other parts of the world.

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

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

HKT

HKT is Hong Kong's leading operator in fixed line, broadband and mobile communication services. It is Hong Kong's largest broadband service provider with its fiber network covering 88.3% of homes and 7,400 non-residential buildings. CSL Mobile operates the csl and 1010 mobile service brands.

HKT also delivers end-to-end integrated Enterprise Solutions enabling companies to enhance operational efficiency and gain business insights.

Its international operating division, PCCW Global, operates a Tier-1 global Internet backbone network. Its network connects more than 3,000 cities and 150 countries in the world.

HKT also provides a range of non-telecom services including mobile payment, travel and insurance. The Club is HKT's loyalty program and an integral part of a new digital ecosystem connecting consumers and merchants.

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

PCCW Media

Now TV is Hong Kong's largest pay-TV provider, offering a wide range of local and international content through linear TV channels, on-demand and via OTT (over-the-top) apps. Now E is an entertainment OTT platform offering premium, exclusive content to meet the needs of viewers with Millennial lifestyle.

The Group also operates an international OTT media entertainment business in 28 markets globally, carrying the Viu and Vuclip video streaming services and the MOOV music streaming service. Viu is a leading video service in the region offering premium content and Viu Original productions. Vuclip provides web-based and short-form video content for emerging markets. MOOV is a hugely popular music digital streaming service in Hong Kong.

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

PCCW Solutions

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

PCCW Solutions offers an Infinitum solutions suite to support companies in various industries to revolutionize business operations and enhance customer experience.

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

PCCW Solutions is actively expanding in the Pan Asian region.

STATEMENT FROM THE CHAIRMAN

I am pleased to report that the core businesses of PCCW achieved reasonable operational results for the year ended December 31, 2018.

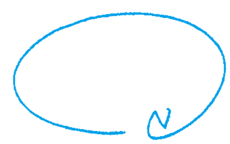
The Group's media business last year continued to strengthen its leadership position by offering premium local, regional and international entertainment and sports content across multiple platforms. PCCW Media has secured the exclusive pay-TV, free TV and OTT (over-the-top) broadcast rights in Hong Kong of the Premier League up to 2021/22. Our pan-regional OTT video streaming service Viu, which offers popular Asian content and Viu Original programs, nearly doubled its MAU (monthly active users) to 30 million from a year ago in 16 markets in Southeast Asia, the Middle East and India.

Last year, the Group's enterprise IT solutions business and Hong Kong's number one IT service provider, PCCW Solutions, further expanded its Pan Asian presence with the aim of become a leading enabler of enterprises' digital transformation in the region. To meet growing customer demand, we are expanding our data center capability in Hong Kong with a new world-class facility which will come into service later this year.

HKT recorded another year of satisfactory performance across its core business lines. Both the fixed broadband and mobile businesses held steady amid intense competition. Offering a range of smart living and smart business services and products, HKT has been playing an active role in facilitating the development of Hong Kong into a smart city.

The overseas projects of Pacific Century Premium Developments continued to make good progress. Our premium office building in Indonesia, Pacific Century Place, Jakarta became fully operational in 2018. In Japan, construction of a new ski center at Niseko, Hokkaido is continuing according to plan.

In 2019, the global economic outlook is less than certain, not least due to the overhanging trade tensions between China and the US. Nevertheless, we are confident that PCCW will be able to chart a course of continued growth on the foundation of our resilient and diversified business operations.



Richard Li
Chairman
February 25, 2019

STATEMENT FROM THE GROUP MANAGING DIRECTOR

It is my pleasure to present an overview of the PCCW Group's key business activities in media entertainment, enterprise IT solutions, telecommunications, and property in the following sections.

UNPARALLELED MEDIA CONTENT OFFERING

The Group's local media business mainly comprises Hong Kong's largest pay-TV, Now TV, its OTT extension Now E, and free TV under the brand ViuTV. Regionally, Viu is a leading OTT entertainment platform with a growing mass of audience. Each of these services offers unique content and programming that captivate the respective target viewers, while together they create synergies and additional value for the Group.

Last summer, PCCW Media was the exclusive broadcaster in Hong Kong of the 2018 FIFA World Cup™. Live broadcast of the exciting matches on Now TV, ViuTV and Now E provided our viewers with an engaging experience.

In our continuing effort to reinforce our position as Hong Kong's home of sports, PCCW Media has secured the Hong Kong pay-TV, OTT and free TV broadcast rights of the Premier League from 2019/20 to 2021/22. This complements our rights to broadcast the UEFA Champions League and the UEFA Europa League until 2020/21 and the Spanish LaLiga until 2022/23. Together with other lineup, Now TV customers can enjoy more than 1,600 of the world's top football matches in a season, complete with expert analysis and Cantonese commentary. For the next season of Premier League, select matches will be shown live in 4K resolution for the first time for users of the Now One set-top box.

As viewing habits evolve, especially among the younger audience with the millennial lifestyle, the one-stop Now E OTT platform was launched in Hong Kong last May, offering international and Asian dramas, movies, and sporting events such as the World Cup. Now E's content portfolio is continuously expanding and users can access via their smartphone, tablet, or Android TV box on a pay-per-view or subscription basis.

LEADING PAN-REGIONAL OTT SERVICE

Viu OTT has reached 28 markets following its launch in Myanmar last September. In the 16 markets where we offer a premium service, our active engagement with viewers resulted in the continuous growth of MAU (monthly active users) to more than 30 million at the end of 2018, an 89% jump from a year ago. Last year, our viewers consumed 37.5 billion video minutes, a 117% increase from 2017.

In 2018, Viu produced more than 900 episodes of Viu Original programming in local languages, which was three times the volume of a year ago. Viu Originals out of Indonesia and Malaysia won several Asian creative awards last October.

In addition to Viu Original programming, Viu signed up more content agreements with providers in different markets, such as Thailand and Korea, to boost its appeal to local online audiences. Content genres include dramas, variety shows, quiz, and reality shows.

CREATIVE FREE TV SERVICE

The Group's free television service, ViuTV, expanded its viewership last year with the broadcast of key matches of the World Cup including the final. Riding on this success, it rolled out a talent scouting show at its prime time hours in the second half of the year which also generated positive audience feedback. The winners and participants in the show have subsequently formed two singing and entertainment performance groups managed under ViuTV.

ViuTV is renowned for its creativity in TV drama series production. As a commercial extension, a popular ViuTV drama has been made into an on-stage drama production. In view of audience's interest in locally produced TV dramas, ViuTV also plans to produce more than 300 hours of dramas in 2019, three times that of 2018.

To enhance its production capabilities, ViuTV has recently relocated and enlarged its studios. Two well-equipped new studios in Kowloon Bay totaling 7,000 sq. ft. can more flexibly accommodate various production formats.

LEADING DIGITAL TRANSFORMATION ENABLER

PCCW Solutions aims to drive sustainable growth through accelerating enterprises' digital transformation with expansion of its intellectual property as well as wider territory coverage. Its Infinitum solutions suite is a catalogue of innovations using AI (Artificial Intelligence), advanced analytics, IoT (Internet of Things), digital and cloud technologies to meet the evolving needs in sectors such as finance and insurance, travel and transport, retail and manufacturing, property, and telecommunications.

To capture opportunities arising from increased ecommerce activities, PCCW Solutions opened in September a fully-automated intelligent unmanned showcase of ecommerce platform, HABBITZZ+, to demonstrate its ability to offer innovative solutions to create a rich O2O (online to offline) experience for enterprises and their customers.

Already the number one IT service provider in Hong Kong and a major player in the Mainland, PCCW Solutions seeks to replicate its success outside of Hong Kong with a view to becoming a leading digital transformation partner of enterprises and public sector organizations in the Pan Asian region. We plan to continue to expand our footprint in Singapore on the back of the win of a major contract from a government department in the country to enhance its digital services in the fourth quarter, and a project to design and build a software-defined network and end-to-end IT system for a telecom company earlier last year.

We continue to expand our data center capacity locally and internationally. A new world-class data center in the New Territories, which will be in service in the second half of 2019, has generated a strong pipeline with more customer commitment expected in the coming months. Meanwhile, the D-Infinitum global data center alliance operates in 130 locations in 80 cities around the world.

HKT

HKT contributes to the Group with another year of steady performance and growth in AFF (adjusted funds flow) despite the fact that it faced intense competition in both the fixed broadband and mobile communications markets.

As Hong Kong's largest telecommunications service operator and an innovation leader, HKT is actively contributing to the development of Hong Kong into a smart city. It has partnered with renowned institutions in Hong Kong to research on smart city applications and offers individual and business customers smart products and solutions to meet their aspirations.

The Club is HKT's loyalty program offering numerous privileges and benefits to more than 2.7 million members. Not only does it help retain customers, but it also provides us with insights to personalize offerings to its members. On this platform, we will explore to build different verticals including travel, insurance and virtual banking.

PACIFIC CENTURY PREMIUM DEVELOPMENTS (PCPD)

Pacific Century Place, Jakarta, our premium office investment in Indonesia, started operation in full swing in 2018. About 83% of the office space was reserved or committed as at the year end. Some key tenants have moved in and handover to tenants will continue. An international standard, fully-equipped gymnasium and a food court were opened during the latter half of the year.

In Japan, we remain on course for target completion of the Park Hyatt Hotel and Branded Residences at Niseko, Hokkaido in late 2019. Approximately 85% of the 114 residence units have been sold and PCPD intends to launch the balance of the units in Asia over the coming year. The company announced last November the construction of a new ski center at Niseko to house restaurant facilities and meet other operational needs. In Thailand, the first phase of the project in Phang-nga has entered into the design stage.

PCPD will continue to explore investment opportunities around the world to maximize shareholders' return.

LOOKING FORWARD

In 2019, the Group's core businesses of media entertainment, IT solutions, and telecommunications will continue to safeguard their market-leading positions in Hong Kong while seeking growth opportunities also through the development of new business streams and expansion into new markets.

Now TV will reinforce its successful proposition delivering premium content, which includes world class sporting events, to viewers in Hong Kong on multiple platforms. Viu OTT has established its presence in some of the most promising markets in Asia and will provide the growing population of online video viewers with the most relevant and original content.

PCCW Solutions is well-positioned to assist the digital transformation of both the private and public sectors in Hong Kong, the Mainland, and other places in the region where it is actively expanding into following some notable success cases in the past year.

Leveraging its competitive advantage as the leading connectivity provider, HKT will continue to innovate to serve customers' needs for a smarter home, smarter lifestyle, and smarter business operations.

Over the years, PCCW has built robust operations across our businesses. While the global economic environment is faced with challenges in the coming year, the Group will continue to pursue its growth objectives by playing a key role in this era of digital transformation.

BG Srinivas
Group Managing Director
February 25, 2019

PCCW IN NUMBERS

30.7M

monthly active users of Viu OTT

32M

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

900+

episodes of Viu Original productions

1.344M

installed base of Now TV

23,600+

staff in 45+ countries and cities

PCCW

20,532

volunteer service hours in 44 ongoing and special community service programs

1,740

staff training programs and seminars

2.631M
exchange lines

1.615M
broadband access lines

4.324M
mobile subscribers

2.7M
members of The Club

Consolidated revenue
HK$38.850 billion

Consolidated EBITDA
HK$12.235 billion

Consolidated profit attributable to equity holders
HK$897 million

Total dividend per share
31.24 HK cents

Global data center alliance covers
130+ locations in
80+ cities globally

SIGNIFICANT EVENTS IN 2018

JANUARY

Pacific Century Premium Developments announces redevelopment of Nos. 3-6 Glenealy, Central, with CSI Properties.

FEBRUARY

Viu OTT strengthens its Korean content offering with JTBC partnership.

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

MARCH

PCCW Solutions expands its D-Infinitum data center services in Asia with Japan's SCSK Corp.

APRIL

Viu OTT signs a content deal with GMM Channel to provide premium content for audience in Thailand.

MAY

PCCW Media launches Now E one-stop entertainment OTT platform.

PCCW Solutions launches Infinitum™ Visum to empower connected digital lifestyles and enhance customer experience.

JUNE

Now TV and ViuTV exclusively broadcast 2018 FIFA World Cup™.

JULY

PCCW Media and beIN SPORTS secure the exclusive broadcast right of LaLiga in Hong Kong for 2018/19 to 2022/23 seasons.

AUGUST

PCCW announces financial results for the six months ended June 30, 2018.

SEPTEMBER

PCCW Solutions opens intelligent unmanned showcase HABBITZZ+ to demonstrate a seamless online to offline experience.

Viu OTT expands its service footprint to Myanmar.

PCCW Media and beIN SPORTS secure the broadcast rights of UEFA Champions League and UEFA Europa League from 2018/19 to 2020/21 seasons.

OCTOBER

ViuTV's talent show Good Night Show – King Maker concludes with a finale featuring the top 10 finalists.

NOVEMBER

Pacific Century Premium Developments announces to build a new ski center in Hokkaido, Japan.

DECEMBER

Viu OTT signs an agreement with Thai content provider Workpoint to strengthen its local content.

* This section does not include significant events of HKT Limited. Please refer to HKT annual report for related information.

AWARDS

Award	Awardee	Scheme Organizer
8th Asian Excellence Award 2018 ▪ Best Investor Relations Company ▪ Asia's Best CFO Award	 PCCW PCCW GCFO	*Corporate Governance Asia*
15 Years Plus Caring Company Logo	PCCW	The Hong Kong Council of Social Service
50th Distinguished Salesperson Award Programme ▪ Distinguished Salesperson Award ▪ Outstanding Young Salesperson Award	Now TV staff members	The Hong Kong Management Association
Asia CEO Awards ▪ Technology Company of the Year – Circle of Excellence Award	PCCW Solutions	Carlton Media
Asian Academy Creative Awards 2018 ▪ Best Infotainment Programme ▪ Best Promo or Trailer	ViuTV	Asian Academy Creative Awards
2018 Asia-Pacific Stevie® Awards ▪ Innovation in Content Marketing/Branded Editorial – Silver ▪ Innovation in Social Media Marketing – Bronze	PCCW Solutions	The Stevie® Awards
Award of 10,000 Hours for Volunteer Service	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Best of I.T. Awards 2017 ▪ My Favorite Pay-TV Service ▪ My Favorite Streaming Music Platform	 Now TV MOOV	*PCM*
Building Technologies Annual Distributor Conference 2018 ▪ Diamond Award	PCCW Solutions	Honeywell

At the 8th Asian Excellence Award 2018, PCCW wins the Best Investor Relations Company award.

PCCW Solutions wins the Innovation in Content Marketing/ Branded Editorial – Silver and the Innovation in Social Media Marketing – Bronze awards at the 2018 Asia-Pacific Stevie® Awards.

Award	Awardee	Scheme Organizer
Charter on External Lighting ▪ Platinum Award	PCCW	The Environment Bureau
2018 China Top 500 Solutions Providers ▪ 2018 China Top 50 Smart City Solution Providers ▪ 2018 China Top 100 Solutions Provider ▪ 2018 Manufacturing/Retail Industry Smart Solution Provider ▪ 2018 Telecom Industry Digital Transformation Solution Provider	PCCW Solutions	Business Partner Advisory Organization
CMO Asia Awards 2018 ▪ Best Use of Social Media Marketing ▪ Brand Excellence in IT Sector	PCCW Solutions	CMO Asia
Computerworld Hong Kong Awards 2018 ▪ IT Outsourcing & Managed Services Provider ▪ Platform-as-a-Service Provider ▪ Technology Company of the Year – Mature	PCCW Solutions	Computerworld Hong Kong
e-Brand Awards 2018 ▪ The Best of Pay TV	Now TV	*e-Zone*
FY18 Partner of the Year ▪ 1st Runner Up ▪ Best SaaS Business Development Partner	PCCW Solutions	Oracle
2017 Gold Award for Volunteer Service ▪ Organization	PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department

At the Computerworld Hong Kong Awards 2018, PCCW Solutions wins the IT Outsourcing & Managed Services Provider, the Platform-as-a-Service Provider and the Technology Company of the Year – Mature awards.

Award	Awardee	Scheme Organizer
Google Play's Best Apps of 2018 ▪ Most Entertaining	 Viu	Google
Highest Service Hour Award 2017 ▪ Private Organisations – Category 1 – Merit	 PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
HK Golden IT Awards 2018	 Now E	HK Golden
Hong Kong Call Centre Association Awards 2018 ▪ Outbound Contact Centre of the Year (Below 20 Seats) – Silver ▪ Outbound Contact Centre Manager of the Year – Merit ▪ Outbound Contact Centre Representative of the Year – Merit ▪ Outbound Contact Centre Representative of the Year – Merit ▪ Outbound Contact Centre Team Leader of the Year – Silver	 PCCW Media – Now TV PCCW Media staff members PCCW Media – Now TV staff member	Hong Kong Call Centre Association
Hong Kong Retail Innovation Award 2018 ▪ Best Retail Innovation (Application) Award – Gold	 PCCW Solutions	Hong Kong Retail Technology Industry Association
Hong Kong Service Awards 2018 ▪ Pay TV	 Now TV	*East Week*
Huawei Partner Summit Awards 2017 ▪ Best Innovation Solution Partner	 PCCW Solutions	Huawei
IBM Hong Kong Partner Award 2017 ▪ Best Solution Provider Award	 PCCW Solutions	IBM

Viu wins the Most Entertaining award at the Google Play's Best Apps of 2018.

Now E wins the HK Golden IT Awards 2018.

Award	Awardee	Scheme Organizer
IFPHK Financial Education Leadership Awards 2018 ▪ Commercial Firms – Corporate Financial Education Leadership – Gold Award	PCCW	The Institute of Financial Planners of Hong Kong
2018 Kam Fan Awards ▪ Design & Crafts – Copy Crafts Single – Best Film Script (Chinese) – Merit ▪ Film – TVC Film Campaign – Bronze	ViuTV	The Association of Accredited Advertising Agencies of Hong Kong
Marketing Excellence Award 2018 ▪ Excellence in Advertising – Gold ▪ Excellence in Digital Marketing – Bronze	MOOV HK	*Marketing*
Market Leadership Award 2017/2018 ▪ Market Leadership in Digital Technology	PCCW Solutions	Hong Kong Institute of Marketing
McAfee's 2018 North Asia Partner of the Year	PCCW Solutions	McAfee
Metro Awards For Brand Excellence 2017 ▪ Best Infotainment TV	Now TV	*Metro Daily* and *Metro Prosperity*
Metro Awards For Service Excellence 2018 ▪ Excellence in Information and Entertainment Service (Pay TV)	Now TV	*Metro Daily* and *Metro Prosperity*
MOB-EX Awards 2018 ▪ Best Original Content ▪ Best Use of Limited Budget	Now TV	*Marketing*
New York Festivals – World's Best TV & Films℠ 2018 ▪ Art Direction: Promotion/Open & IDs – Gold World Medal ▪ Direction: Promotion/Open & IDs – Finalist Certificate ▪ Entertainment Program Open & Titles – Gold World Medal ▪ Entertainment Program Promotion – Finalist Certificate ▪ Graphic Design: Promotion/Open & IDs – Bronze World Medal	ViuTV	New York Festivals
PCM Biz. IT Excellence 2018 ▪ IT Solution Excellence – Retail Industry	PCCW Solutions	*PCM*

Now TV wins the Excellence in Information and Entertainment Service (Pay TV) award at the Metro Awards For Service Excellence 2018.

At the Marketing Excellence Award 2018, MOOV HK wins the Excellence in Advertising – Gold and the Excellence in Digital Marketing – Bronze awards.

Award	Awardee	Scheme Organizer
PromaxBDA Asia 2018 ▪ Best Drama Campaign – Silver	ViuTV	PromaxBDA
PromaxBDA Global Excellence Promotion, Marketing & Design Awards 2018 ▪ Art Direction & Design: Program Promotional Spot – Silver ▪ Art Direction & Design: Title Sequence – Bronze ▪ Art Direction & Design: Title Sequence – Silver ▪ Best Social Cause Campaign – Bronze ▪ Delivering On A Dime – Bronze	ViuTV	PromaxBDA
REA Greater China Awards 2018 ▪ Best Lifestyle Brands – Best Entertainment TV Platform	Now TV	REA Group
SMBWorld Awards 2018 ▪ Best SMB Partner (e-Commerce Platform) ▪ Best SMB Technology Product (Services) – Best IT Outsourcing	PCCW Solutions	*SMBWorld*
Social Capital Builder Awards 2018-2020 ▪ Social Capital Builder Logo Award	PCCW	Community Investment and Inclusion Fund of the Labour and Welfare Bureau

ViuTV wins the Best Drama Campaign – Silver award at the PromaxBDA Asia 2018.

Award	Awardee	Scheme Organizer
The 6th Media Convergence Awards		Hong Kong Association of Interactive Marketing
▪ Top 10 Favorite Facebook Fanpages	ViuTV	
▪ Top 10 Favorite Media Websites		
▪ Top 10 Media		
▪ TV Category (Mobile) – Silver		
▪ TV Category (Overall) – Silver		
▪ TV Category (Social Media) – Silver		
▪ TV Category (Website) – Gold		
▪ Top 10 Favorite OTT Platform	Viu	
▪ TV Category (Mobile) – Bronze	Now TV	
▪ TV Category (Overall) – Bronze		
▪ TV Category (Social Media) – Bronze		
▪ TV Category (Website) – Silver		
The 9th Hong Kong Outstanding Corporate Citizenship		The Hong Kong Productivity Council
▪ Volunteer Team – Bronze Award	PCCW	
The 39th Telly Awards		The Telly Awards
▪ Local TV – Campaign – Promotional – Gold	ViuTV	
▪ Local TV – General – Food & Beverage – Silver		
▪ Television – Craft – Use of 3D Animation – Bronze		
▪ Television – Craft – Use of Graphics – Bronze		
▪ Television – General – Cultural – Bronze		
▪ Television – General – Public Interest/Awareness – Bronze		
The 54th Chicago International Television Festival		Cinema/Chicago
▪ Commercials – Art Direction/Production Design – Silver Hugo	ViuTV	
2017 Top 10 China IT Outsourcing Service Enterprises		China Software and Information Service Industry Network
▪ Champion	PCCW Solutions	
Top TriTech Deal of the Year 2017-2018	PCCW Solutions	TriTech Distribution
Web Accessibility Recognition Scheme 18/19		Hong Kong Internet Registration Corporation Limited
▪ Silver Award (Website Stream)	PCCW	

This award list does not include awards to HKT Limited and Pacific Century Premium Developments Limited. Please refer to the annual reports of the two companies for related information.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

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

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

Srinivas Bangalore GANGAIAH (aka BG Srinivas)

Group Managing Director

Mr Srinivas, aged 58, was appointed an Executive Director and Group Managing Director of PCCW effective from July 2014. He is a member of PCCW's Executive Committee and holds directorships in certain PCCW group companies. He is also a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust. He is also an Alternate Director of certain FWD group companies controlled by Mr Li Tzar Kai, Richard, the Chairman of PCCW.

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

Mr Srinivas has been on the panel of judges for the European Business Awards (EBA) for three consecutive years and is a frequent speaker at World Economic Forum, and academic institutions such as INSEAD, Saïd Business School, University of Oxford and Yale University.

Mr Srinivas holds a degree in mechanical engineering from Bangalore University, India, and has participated in executive programs at Wharton Business School, US, and Indian Institute of Management Ahmedabad (IIMA), India.

HUI Hon Hing, Susanna

Group Chief Financial Officer

Ms Hui, aged 54, was appointed an Executive Director of PCCW in May 2010. She is a member of PCCW's Executive Committee. She has been the Group Chief Financial Officer of PCCW since April 2007 and holds directorships in various PCCW group companies. She is also an Executive Director and the Group Managing Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, a member of HKT'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 Group Chief Financial Officer of HKT from November 2011 to August 2018 and 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.

LEE Chi Hong, Robert
Executive Director
Mr Lee, aged 67, was appointed an Executive Director of PCCW in September 2002. He is a member of PCCW's Executive Committee and is a Director of certain PCCW subsidiaries. He is also an Executive Director, the Chief Executive Officer and Deputy Chairman of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee.

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

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

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

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

NON-EXECUTIVE DIRECTORS

TSE Sze Wing, Edmund, GBS
Non-Executive Director
Mr Tse, aged 81, is a Non-Executive Director of PCCW. He was an Independent Non-Executive Director of PCCW from September 2009 to March 2011 and was re-designated to a Non-Executive Director of PCCW in March 2011. He is also a member of the Regulatory Compliance Committee of the Board.

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

Mr Tse was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2001 in recognition of his outstanding efforts in respect of the development of Hong Kong's insurance industry. Mr Tse graduated with a Bachelor of Arts degree in Mathematics from the University of Hong Kong (HKU) in 1960. HKU conferred an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences on Mr Tse in 1998 and 2002 respectively. He also obtained diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has extensive management experience in the insurance market, both in Asia and globally. In 2003, Mr Tse was elected to the prestigious Insurance Hall of Fame and in 2017, Mr Tse was awarded the first ever "Lifetime Achievement Award" at the Pacific Insurance Conference in recognition of his outstanding contribution to the insurance industry. In 2018, Mr Tse was conferred an Honorary Degree of Doctor of Business Administration by Lingnan University. Mr Tse serves many community and professional organizations as well as educational institutions. He is also a director of AIA Foundation, which supports charitable causes in Hong Kong.

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

Mr 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.

SHAO Guanglu
Non-Executive Director
Mr Shao, aged 54, became a Non-Executive Director of PCCW in March 2017 and is a member of the Remuneration Committee of the Board.

Mr Shao is a Vice President of China United Network Communications Group Company Limited (Unicom) and an Executive Director and Senior Vice President of China Unicom (Hong Kong) Limited. He is also a Senior Vice President of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited.

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

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

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

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.

WEI Zhe, David

Non-Executive Director

Mr Wei, aged 48, is a Non-Executive Director of PCCW. He was appointed an Independent Non-Executive Director of PCCW in November 2011 and was re-designated to a Non-Executive Director of PCCW in May 2012. He is also a member of the Remuneration Committee of the Board.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Aman MEHTA

Independent Non-Executive Director

Mr Mehta, aged 72, became an Independent Non-Executive Director of PCCW in February 2004 and is the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Board. He is also an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and the Chairman of HKT's Nomination Committee.

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

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

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

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

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

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

Bryce Wayne LEE

Independent Non-Executive Director

Mr Lee, aged 54, was appointed an Independent Non-Executive Director of PCCW in May 2012 and is a member of the Audit Committee and the Remuneration Committee of the Board.

Mr Lee joined Silver Lake in 2011 and is a Managing Director of Silver Lake, with responsibilities for both the Kraftwerk and Partners strategies (principally dedicated to the Asia region for Silver Lake Partners). Previously, he was a Managing Director of Credit Suisse Group AG (Credit Suisse) in the Investment Banking division, serving as head of the Technology Group for the Americas and as co-head of the Alternative Energy Group. Mr Lee was instrumental in building a number of Credit Suisse's franchises including its Asian technology investment banking business and was named to Forbes magazine's "Midas List" of the top 100 technology dealmakers in the world. He was a member of Credit Suisse's Investment Banking Committee and served on the Managing Director Evaluation Committee. Mr Lee is a member of the Council on Foreign Relations.

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

Lars Eric Nils RODERT

Independent Non-Executive Director

Mr Rodert, aged 57, was appointed an Independent Non-Executive Director of PCCW in November 2012 and is a member of the Audit Committee of the Board.

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

David Christopher CHANCE

Independent Non-Executive Director

Mr Chance, aged 61, was appointed an Independent Non-Executive Director of PCCW and the Independent Non-Executive Chairman and Director of PCCW Media Limited, an indirect wholly-owned subsidiary of PCCW in November 2013.

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

David Lawrence HERZOG

Independent Non-Executive Director

Mr Herzog, aged 59, was appointed an Independent Non-Executive Director of PCCW in October 2017. He is also a member of the Remuneration Committee, the Nomination Committee and the Regulatory Compliance Committee of the Board.

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

CORPORATE STRATEGY

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

CORPORATE GOVERNANCE CODE

PCCW has applied the principles, and complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") in each case as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended December 31, 2018.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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

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

The directors' and chief executives' interests and short positions in shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations have been disclosed in the Report of the Directors of this annual report.

BOARD OF DIRECTORS

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

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

- those functions and matters for which Board approval must be sought in accordance with the Group's internal policies (as amended from time to time);

- consideration and approval of financial statements in interim and annual reports, and announcements of interim and annual results;

- consideration of dividend amounts in accordance with the dividend policy as adopted by the Board; and

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

The Chairman of PCCW is Li Tzar Kai, Richard and the Group Managing Director is BG Srinivas. The role of the Chairman is separate from that of the Group Managing Director. The Chairman is responsible for ensuring the Board functions effectively, providing leadership for the Board in setting objectives and strategies, and ensuring good corporate governance practices are enforced. The Group Managing Director is responsible for leading the management of the Company in conducting its business affairs in accordance with the Company's objectives, and implementing the Group's strategies and policies. The Board's composition is set out in the Report of the Directors of this annual report.

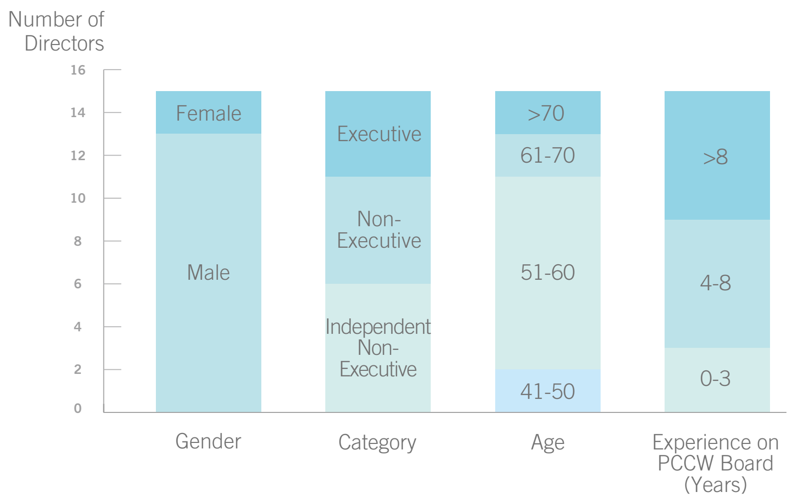
All directors have full and timely access to all relevant information, including monthly updates from the management, regular reports from various Board committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice,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

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

As at the date of this report, the Board is comprised of 15 directors including four executive directors, five non-executive directors and six independent non-executive directors. At least one-third of the Board are independent non-executive directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. Biographies of all the directors are set out on pages 18 to 23 of this annual report and are available on the Company's website (www.pccw.com). The relationships (including financial, business, family or other material or relevant relationships), if any, among members of the Board have also been disclosed in the Report of the Directors of this annual report.

BOARD OF DIRECTORS *(CONTINUED)*

Board Composition

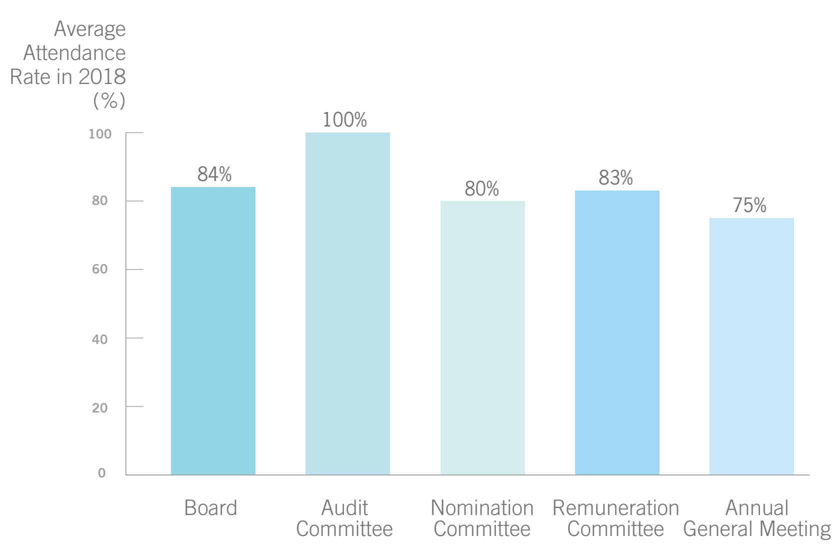


The Company has arranged appropriate directors and officers liability insurance cover for its directors and officers.

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

The Board held four meetings in 2018. The annual general meeting of the Company 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 Board and its committee meetings, and the annual general meeting held in 2018:



BOARD OF DIRECTORS *(CONTINUED)*

Name	Meetings attended/eligible to attend in 2018 *(Note 1)* Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Executive Directors					
Li Tzar Kai, Richard	4/4	N/A	1/1	N/A	1/1
BG Srinivas	4/4	N/A	N/A	N/A	1/1
Hui Hon Hing, Susanna	4/4	N/A	N/A	N/A	1/1
Lee Chi Hong, Robert	4/4	N/A	N/A	N/A	1/1
Non-Executive Directors					
Tse Sze Wing, Edmund	4/4	N/A	N/A	N/A	1/1
Lu Yimin *(Note 2)*	0/3 *(Note 7)*	N/A	N/A	N/A	0/1
Li Fushen *(Note 3)*	2/4	N/A	0/1	N/A	0/1
Shao Guanglu	0/4 *(Note 8)*	N/A	N/A	0/2	0/1
Zhu Kebing *(Note 4)*	0/1	N/A	N/A	N/A	N/A
Wei Zhe, David	4/4	N/A	N/A	2/2	1/1
Independent Non-Executive Directors					
Dr The Hon Sir David Li Kwok Po *(Note 5)*	4/4	N/A	1/1	2/2	0/1
Aman Mehta	4/4	3/3	1/1	2/2	1/1
Frances Waikwun Wong	4/4	N/A	1/1	2/2	1/1
Bryce Wayne Lee	4/4	3/3	N/A	2/2	1/1
Lars Eric Nils Rodert	4/4	3/3	N/A	N/A	1/1
David Christopher Chance	4/4	N/A	N/A	N/A	1/1
David Lawrence Herzog *(Note 6)*	4/4	N/A	N/A	N/A	1/1

Notes:

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

2. Resigned as a Non-Executive Director and the Deputy Chairman of the Board with effect from September 18, 2018.

3. Appointed as the Deputy Chairman of the Board and resigned as a member of the Nomination Committee with effect from September 18, 2018.

4. Appointed as a Non-Executive Director and a member of the Nomination Committee with effect from September 18, 2018.

5. Resigned as an Independent Non-Executive Director and a member of the Remuneration Committee and the Nomination Committee with effect from December 31, 2018.

6. Appointed as a member of the Remuneration Committee and the Nomination Committee with effect from December 31, 2018.

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

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

BOARD OF DIRECTORS *(CONTINUED)*

The Company has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all six independent non-executive directors as at the date of this report, namely, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee, Lars Eric Nils Rodert, David Christopher Chance and David Lawrence Herzog 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 Report of the Directors of this annual report.

According to the Articles of Association, any director so appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company (as the case may be) and shall be eligible for re-election at that meeting. In addition, at each annual general meeting of the Company no less than one-third of the directors for the time being shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Articles of Association, each non-executive director has a term of three years. Therefore, no director will remain in office for a term of more than three years. The directors who shall retire from office at the forthcoming annual general meeting of the Company are set out on page 61 of this annual report.

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

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

As part of an ongoing process of director's continuous professional development ("CPD") training, the directors of the Company 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 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)
BG Srinivas	(a), (b)
Hui Hon Hing, Susanna	(a), (b)
Lee Chi Hong, Robert	(b)
Tse Sze Wing, Edmund	(a), (b)
Li Fushen	(a), (b)
Shao Guanglu	(a), (b)
Zhu Kebing	(a), (b)
Wei Zhe, David	(a), (b)
Aman Mehta	(a), (b)
Frances Waikwun Wong	(a), (b)
Bryce Wayne Lee	(a), (b)
Lars Eric Nils Rodert	(a), (b)
David Christopher Chance	(a), (b)
David Lawrence Herzog	(a), (b)
Former Directors	
Lu Yimin	(b)
Dr The Hon Sir David Li Kwok Po	(a), (b)

Notes:

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

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

BOARD COMMITTEES

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

Executive Committee and Sub-committees

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

The Executive Committee is comprised of five members, including four 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)*
BG Srinivas
Hui Hon Hing, Susanna
Lee Chi Hong, Robert
Li Fushen

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

BOARD COMMITTEES *(CONTINUED)*

Executive Committee and Sub-committees *(continued)*

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

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

The *Risk Management, Controls and Compliance Committee*, which reports to the Executive Committee, is comprised of senior members of PCCW's Group Finance, Group Legal Office and Corporate Secretariat, Group Communications, Group Internal Audit, and Risk Management and Compliance departments. The committee reviews procedures for the preparation of PCCW's annual and interim reports and the Group's policies from time to time to ensure compliance with the various rules and obligations imposed on it as a company listed on The Stock Exchange of Hong Kong Limited, and assists directors in the review of the effectiveness of the risk management and internal control systems of the Group on an ongoing basis.

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

Remuneration Committee

The Board established the Remuneration Committee in May 2003. 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 and other members of the Group who will underpin the success of the Company and enhance the value of the Company to shareholders.

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

As at the date of this annual report, the members of the Remuneration Committee are:
Aman Mehta *(Chairman)*
Wei Zhe, David
Shao Guanglu
Frances Waikwun Wong
Bryce Wayne Lee
David Lawrence Herzog

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

(1) Dr The Hon Sir David Li Kwok Po resigned as a member with effect from December 31, 2018; and

(2) David Lawrence Herzog was appointed as a member with effect from December 31, 2018.

BOARD COMMITTEES *(CONTINUED)*

Remuneration Committee *(continued)*

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 Board, market rates and factors such as each director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management of the Company:

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

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

The Remuneration Committee met two times in 2018. The attendance of individual directors at the committee meetings is set out on page 27 of this annual report.

The work performed by the Remuneration Committee during 2018 included:

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

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

(iii) review of the scheme rules of the Company's share award schemes, with a recommendation to the Board for approval; and

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

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

Nomination Committee

The Board established the Nomination Committee in May 2003. The primary objective of the Nomination Committee is to assist the Board in ensuring a fair and transparent procedure for the appointment and re-appointment of directors to the Board, and maintaining a balance of skills, knowledge, experience and diversity of perspectives on the 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 Board adopted a board diversity policy (the "Board Diversity Policy") to help enhance the effectiveness of the Board and the corporate governance standard through promoting and achieving diversity on the Board. 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 Board and monitor the implementation of the Board Diversity Policy as appropriate.

BOARD COMMITTEES *(CONTINUED)*

Nomination Committee *(continued)*

On November 15, 2018, the Board 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 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 Board, and the candidate's commitment in respect of available time and relevant interests. The Nomination Committee will make recommendations to the Board on 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 Board with respect to their re-election by shareholders at general meetings.

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)*
Li Tzar Kai, Richard
Zhu Kebing
Frances Waikwun Wong
David Lawrence Herzog

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

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

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

(3) Dr The Hon Sir David Li Kwok Po resigned as a member with effect from December 31, 2018; and

(4) David Lawrence Herzog was appointed as a member with effect from December 31, 2018.

On February 25, 2019, the Nomination Committee, having reviewed the Board's structure, size and composition, nominated Li Tzar Kai, Richard, Zhu Kebing, Wei Zhe, David, Frances Waikwun Wong and Lars Eric Nils Rodert to the 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 Frances Waikwun Wong and Lars Eric Nils Rodert having regard to the independence criteria as set out in the Listing Rules and formed the view that the 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.

BOARD COMMITTEES *(CONTINUED)*

Nomination Committee *(continued)*

The Nomination Committee met once in 2018. The attendance of individual directors at the committee meeting is set out on page 27 of this annual report.

The work performed by the Nomination Committee during 2018 included:

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

(ii) recommendation to the Board for approval the list of retiring directors for re-election at the 2018 annual general meeting;

(iii) recommendation to the 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;

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

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

Audit Committee

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

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

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

During the year, the external auditor provided audit, audit related and permissible non-audit services to the Group. Audit services include services provided in connection with the audit of the Group's consolidated financial statements. Audit related services include services such as issuance of special audit or assurance reports for tax or other regulatory purposes, and accounting advice related to material transactions, where the external auditor is best placed to undertake in its capacity as auditor. Permissible non-audit services include services such as tax compliance and tax planning services, non-financial reporting information systems consultation 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 Group by the external auditor amounted to approximately HK$26 million, HK$3 million and HK$9 million, respectively.

On February 25, 2019, the Audit Committee recommended to the Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2019 at the forthcoming annual general meeting.

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

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

The members of the Audit Committee during 2018 and up to the date of this annual report are:
Aman Mehta *(Chairman)*
Bryce Wayne Lee
Lars Eric Nils Rodert

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and 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 27 of this annual report.

The work performed by the Audit Committee during 2018 included:

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

(ii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report to the Audit Committee and the draft management representation letter for the year ended December 31, 2017, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2018 annual general meeting;

(iii) review and assessment of 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 Board for approval;

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

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

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

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

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

(ix) review and approval of PricewaterhouseCoopers' draft audit engagement letter for the year ending December 31, 2018;

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

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

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

(xii) 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 Board for approval;

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

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

(xv) 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, Dividend 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 Board for approval;

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

(xvii) review and monitoring of training and CPD for directors and senior management; and

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

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

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

As at the date of this annual report, the members of the Regulatory Compliance Committee are:
Frances Waikwun Wong *(Chairperson)*
Tse Sze Wing, Edmund
David Lawrence Herzog

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

(1) Dr The Hon Sir David Li Kwok Po resigned as a member with effect from December 31, 2018; and

(2) David Lawrence Herzog was appointed as a member with effect from December 31, 2018.

REGULATORY COMPLIANCE COMMITTEE OF PCCW MEDIA LIMITED

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

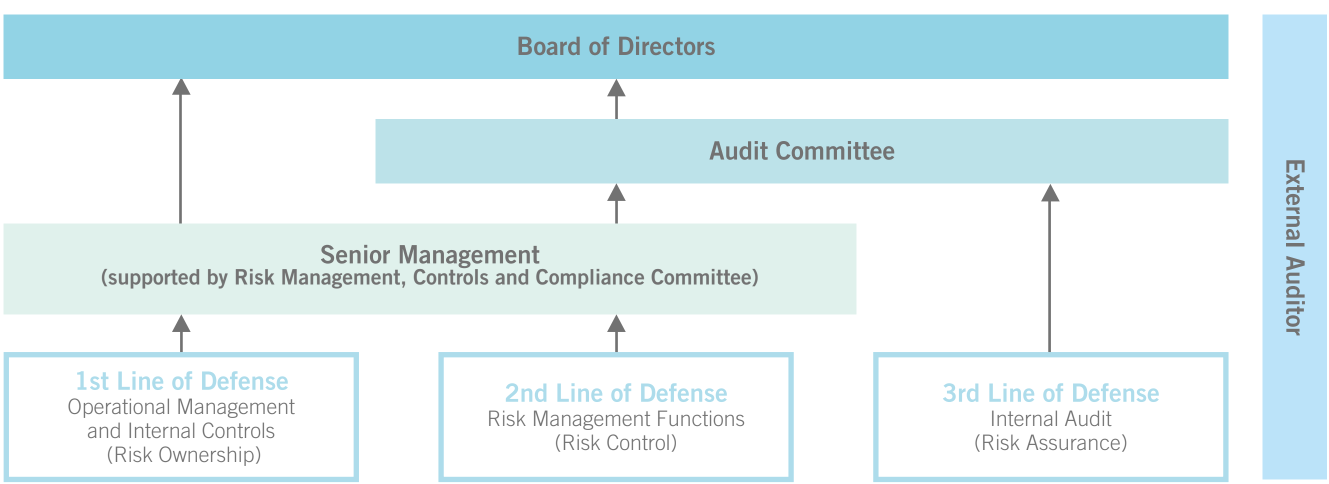
RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal controls, and the resourcing of the finance and internal audit functions.

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

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



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

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

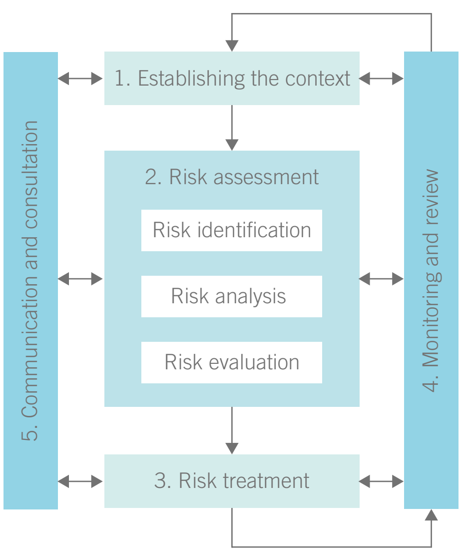
RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

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

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

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

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



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

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS *(CONTINUED)*

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

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

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.

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

During 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 Committee, which then reviewed and reported the same to the Board, on the monitoring of the risk management and assisted the directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

During 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 were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

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

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

COMPANY SECRETARY

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

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

SHAREHOLDERS' RIGHTS

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

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

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

Procedures by which enquiries may be put to the Board

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

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

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

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

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

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS *(CONTINUED)*

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their shareholdings and the business of the Company are dealt with in an informative and timely manner. The relevant contact information is provided on page 224 of this annual report and also provided in the Shareholders Communication Policy.

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

CONSTITUTIONAL DOCUMENT

During the year ended December 31, 2018, there was no change made to the constitutional document of the Company. A copy of the constitutional document is available on the websites of the Company and HKEX.

By order of the Board

Bernadette M. Lomas
Group General Counsel and Company Secretary
Hong Kong, February 25, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Core revenue increased by 5% to HK$38,550 million
- Core EBITDA decreased by 2% to HK$12,400 million
- Core profit attributable to equity holders of the Company increased by 8% to HK$1,302 million

- Consolidated revenue increased by 5% to HK$38,850 million
- Consolidated profit attributable to equity holders of the Company was steady at HK$897 million

- Basic earnings per share amounted to 11.63 HK cents

- Final dividend of 22.33 HK cents per ordinary share

- Results reflect the continuing operations of the Company

MANAGEMENT REVIEW

We are pleased to report that PCCW delivered a set of reasonable financial results for the year ended December 31, 2018. These results reflect the adoption of several new accounting standards and, for comparison, the results for the year ended December 31, 2017 have been restated as if these new accounting standards had been in place. The results are for the continuing operations of the Company.

Revenue from HKT Limited ("HKT") 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. Revenue from the Media business grew by 10% as all three platforms of pay TV, free TV and over-the-top ("OTT") services delivered business expansion. Pay TV benefited from the launch of the Now E service, free TV continued to expand audience reach and awareness and the OTT segment boosted its viewer base and engagement. Revenue from the Solutions business recorded 2% growth as it completed several projects for major public sector and enterprise customers. However, this was partially offset by a shift in the focus of the business in the mainland China market to offer digital technology solutions to our enterprise customers. Overall, core revenue increased by 5% to HK$38,550 million.

HKT's EBITDA increased by 2% to HK$12,558 million for the year ended December 31, 2018 while the Solutions business recorded a steady EBITDA. The Media business continued to invest into new market expansion and unique content to drive future growth. As a result, core EBITDA softened by 2% to HK$12,400 million. Core profit attributable to equity holders of the Company increased by 8% to HK$1,302 million as a result of certain investment gains.

Projects at PCPD are progressing as scheduled with revenue boosted by rental income from Pacific Century Place, Jakarta ("PCP, Jakarta") as tenants started to move in.

As a result, consolidated revenue increased by 5% to HK$38,850 million and consolidated profit attributable to equity holders of the Company was steady at HK$897 million for the year ended December 31, 2018. Basic earnings per share was 11.63 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 22.33 HK cents per ordinary share for the year ended December 31, 2018.

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

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

OUTLOOK

In 2019, the Group's core businesses of media entertainment, IT solutions and telecommunications will continue to safeguard their market-leading positions in Hong Kong while seeking growth also through the development of new business streams and expansion in new markets.

Now TV will reinforce its successful proposition delivering premium content, which includes world class sporting events, to viewers in Hong Kong on multiple platforms. Viu OTT has established its presence in some of the most promising markets in Asia and will provide the growing population of online video viewers with the most relevant and original content.

PCCW Solutions is well-positioned to assist the digital transformation of both the private and public sectors in Hong Kong, mainland China, and other places in the region where it is actively expanding into following some notable success cases in the past year.

Leveraging its competitive advantage as the leading connectivity provider, HKT will continue to innovate to serve customers' needs for a smarter home, smarter lifestyle and smarter business operations.

Over the years, PCCW has built robust operations across our businesses. While the world economic environment is faced with many challenges in the coming year, the Group will be able to continue to pursue its growth objectives by playing a key role in this era of digital transformation.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2017 (Restated) H1	H2	Full Year	**2018 H1**	**H2**	**Full Year**	Better/ (Worse) y-o-y
Continuing operations							
Revenue							
HKT	15,211	17,856	33,067	**17,022**	**18,165**	**35,187**	6%
HKT (excluding Mobile Product Sales)	13,519	15,398	28,917	**13,648**	**15,782**	**29,430**	2%
Mobile Product Sales	1,692	2,458	4,150	**3,374**	**2,383**	**5,757**	39%
Now TV Business	1,334	1,386	2,720	**1,392**	**1,463**	**2,855**	5%
Free TV Business	94	91	185	**99**	**105**	**204**	10%
OTT Business	337	381	718	**394**	**515**	**909**	27%
Solutions Business	1,685	2,317	4,002	**1,709**	**2,384**	**4,093**	2%
Eliminations	(1,558)	(2,466)	(4,024)	**(1,807)**	**(2,891)**	**(4,698)**	(17)%
Core revenue	17,103	19,565	36,668	**18,809**	**19,741**	**38,550**	5%
PCPD	107	57	164	**165**	**135**	**300**	83%
Consolidated revenue	17,210	19,622	36,832	**18,974**	**19,876**	**38,850**	5%
Cost of sales	(8,402)	(9,942)	(18,344)	**(10,152)**	**(10,490)**	**(20,642)**	(13)%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment and right-of-use assets, net	(3,304)	(2,748)	(6,052)	**(3,349)**	**(2,624)**	**(5,973)**	1%
EBITDA[1]							
HKT	5,547	6,738	12,285	**5,639**	**6,919**	**12,558**	2%
Now TV Business	167	249	416	**198**	**273**	**471**	13%
Free TV Business	(104)	(116)	(220)	**(131)**	**(219)**	**(350)**	(59)%
OTT Business	(115)	(118)	(233)	**(144)**	**(192)**	**(336)**	(44)%
Solutions Business	378	701	1,079	**271**	**809**	**1,080**	–
Other Businesses	(251)	(342)	(593)	**(193)**	**(400)**	**(593)**	–
Eliminations	(21)	(41)	(62)	**(87)**	**(343)**	**(430)**	>(500)%
Core EBITDA[1]	5,601	7,071	12,672	**5,553**	**6,847**	**12,400**	(2)%
PCPD	(97)	(139)	(236)	**(80)**	**(85)**	**(165)**	30%
Consolidated EBITDA[1]	5,504	6,932	12,436	**5,473**	**6,762**	**12,235**	(2)%
Core EBITDA[1] Margin	*33%*	*36%*	*35%*	***30%***	***35%***	***32%***	
Consolidated EBITDA[1] Margin	*32%*	*35%*	*34%*	***29%***	***34%***	***31%***	
Depreciation	(1,763)	(1,755)	(3,518)	**(1,784)**	**(1,726)**	**(3,510)**	–
Amortization	(1,676)	(1,610)	(3,286)	**(1,680)**	**(1,801)**	**(3,481)**	(6)%
Gain/(Loss) on disposal of property, plant and equipment and right-of-use assets, net	1	(4)	(3)	**1**	**(7)**	**(6)**	(100)%
Other gains/(losses), net	25	(60)	(35)	**334**	**309**	**643**	n/a
Interest income	58	75	133	**71**	**63**	**134**	1%
Finance costs	(847)	(789)	(1,636)	**(893)**	**(1,006)**	**(1,899)**	(16)%
Share of results of associates and joint ventures	(35)	89	54	**(26)**	**94**	**68**	26%
Profit before income tax	1,267	2,878	4,145	**1,496**	**2,688**	**4,184**	1%

Note 1 *EBITDA represents earnings before interest income, finance costs, income tax, depreciation and amortization, gain/loss on disposal of property, plant and equipment, investment properties, interests in leasehold land, 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 and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*

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

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

HKT

For the year ended December 31, HK$ million	2017 (Restated) H1	H2	Full Year	**2018** **H1**	**H2**	**Full Year**	Better/ (Worse) y-o-y
HKT Revenue	15,211	17,856	33,067	**17,022**	**18,165**	**35,187**	6%
HKT Revenue (excluding Mobile Product Sales)	13,519	15,398	28,917	**13,648**	**15,782**	**29,430**	2%
Mobile Product Sales	1,692	2,458	4,150	**3,374**	**2,383**	**5,757**	39%
HKT EBITDA[1]	5,547	6,738	12,285	**5,639**	**6,919**	**12,558**	2%
HKT EBITDA[1] margin	*36%*	*38%*	*37%*	***33%***	***38%***	***36%***	
HKT Adjusted Funds Flow	2,129	2,783	4,912	**2,205**	**2,966**	**5,171**	5%

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.

Total revenue for the year ended December 31, 2018 increased by 6% to HK$35,187 million, underpinned by steady growth in 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 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 correspondingly grew by 5% to 68.29 HK cents.

HKT 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, representing the full payout of the annual adjusted funds flow per Share Stapled Unit.

For a more detailed review of the performance of HKT, please refer to its 2018 annual results announcement released on February 22, 2019.

NOW TV BUSINESS

For the year ended December 31, HK$ million	2017 (Restated) H1	H2	Full Year	2018 H1	H2	Full Year	Better/ (Worse) y-o-y
Now TV Business Revenue	1,334	1,386	2,720	**1,392**	**1,463**	**2,855**	5%
Now TV Business EBITDA[1]	167	249	416	**198**	**273**	**471**	13%
Now TV Business EBITDA[1] margin	*13%*	*18%*	*15%*	***14%***	***19%***	***16%***	

Revenue for the Now TV business for the year ended December 31, 2018 increased by 5% to HK$2,855 million compared to HK$2,720 million for the previous year. This growth reflected the impact of the 2018 FIFA World Cup™ on new Now TV subscriptions and revenue generated from event-specific passes as well as the launch of the Now E service, a one-stop entertainment platform focused on expanding the pay TV service beyond the traditional customer base to digitally savvy viewers. As a result, Now TV enlarged its installed base to 1,344,000 as of December 2018 with an exit average revenue per user ("ARPU") of HK$180.

Meanwhile, steps were taken to rationalize content cost which led to EBITDA for the year ended December 31, 2018 expanding by 13% to HK$471 million, as compared to HK$416 million a year ago. The EBITDA margin improved from 15% in 2017 to 16% in 2018.

With the securing of the exclusive broadcast rights of the Premier League for the next three seasons to 2021/22 and the addition of UEFA Champions League to its already strong sports coverage, Now TV continues to maintain its position as the leading pay TV service provider in Hong Kong.

FREE TV BUSINESS

For the year ended December 31, HK$ million	2017 (Restated) H1	H2	Full Year	2018 H1	H2	Full Year	Better/ (Worse) y-o-y
Free TV Business Revenue	94	91	185	**99**	**105**	**204**	10%
Free TV Business EBITDA[1]	(104)	(116)	(220)	**(131)**	**(219)**	**(350)**	(59)%

Revenue for ViuTV grew by 10% to HK$204 million for the year ended December 31, 2018 from HK$185 million a year ago. This growth reflected a 36% increase in advertising revenue during the year, largely driven by the 2018 FIFA World Cup™ and a growing library of drama and variety shows. However, the strong growth in advertising revenue was moderated by the absence of significant drama distribution revenue in 2018 which was apparent in 2017.

Due to the continued investments in content acquisition and production, the EBITDA loss widened to HK$350 million for the year ended December 31, 2018, compared to an EBITDA loss of HK$220 million a year ago. These investments are building the foundation for revenue growth in the coming periods.

ViuTV has expanded its business scope to include artiste management, events and shows riding on the success of a number of its drama and variety programs. These initiatives offer additional revenue opportunities beyond TV advertising and are expected to contribute to revenue in future periods. With its newly renovated state-of-art studio facilities, ViuTV will ramp up the volume and quality of its drama production to expand its viewership base in Hong Kong and fulfil demand from overseas markets.

OTT BUSINESS

For the year ended December 31, HK$ million	2017 (Restated) H1	H2	Full Year	**2018** **H1**	**H2**	**Full Year**	Better/ (Worse) y-o-y
OTT Business Revenue	337	381	718	**394**	**515**	**909**	27%
OTT Business EBITDA[1]	(115)	(118)	(233)	**(144)**	**(192)**	**(336)**	(44)%

Revenue from the OTT business grew by 27% to HK$909 million from HK$718 million a year ago. Video OTT revenue increased by 39% underpinned by the deepening penetration and take-up of the premium Viu service in the 16 markets across the region that it is now available. In particular, Viu is experiencing notable traction in Indonesia and Thailand which were two of our fastest growing markets by revenue. The positive momentum is, in part, due to the increasing library of Viu Original productions, which offer high quality, locally relevant content.

The Viu service recorded 30.7 million monthly active users as of December 31, 2018 and 37.5 billion video minutes in 2018, representing significant year-on-year growth of 89% and 117% respectively. As a result of this active user engagement, advertising and other revenue generated by the OTT business surged by 93% from HK$203 million to HK$392 million year-on-year. Subscription revenue was steady at HK$517 million for the year ended December 31, 2018 as compared to HK$515 million a year ago. The balanced mix of advertising and subscription revenue attests to the effectiveness of the freemium model that Viu has adopted.

Continued investments were made in personnel and marketing to enhance Viu's market penetration and drive user engagement. Accordingly, the OTT business recorded an EBITDA loss of HK$336 million for the year ended December 31, 2018 compared to the EBITDA loss of HK$233 million a year ago.

Our OTT business will continue to invest in its Viu Original productions to meet the demand in various markets for high quality content and to further boost user engagement and monetization.

SOLUTIONS BUSINESS

For the year ended December 31, HK$ million	2017 (Restated) H1	H2	Full Year	**2018** H1	H2	Full Year	Better/ (Worse) y-o-y
Solutions Business Revenue	1,685	2,317	4,002	**1,709**	**2,384**	**4,093**	2%
Solutions Business EBITDA[1]	378	701	1,079	**271**	**809**	**1,080**	–
Solutions Business EBITDA[1] margin	*22%*	*30%*	*27%*	***16%***	***34%***	***26%***	

The Solutions business recorded a 2% growth in revenue to HK$4,093 million for the year ended December 31, 2018 as we completed several major projects for public sector and enterprise customers including the Immigration Department of Hong Kong and Global Switch. However, this was partially offset by a slowdown in our business in mainland China as we shifted our focus from delivering traditional IT services to total technology solutions that enable enterprises to digitally transform their business processes.

The Solutions business continued to maintain its strength in the large IT spending sectors of telecom and the HKSAR Government, which accounted for 41% and 25%, respectively, of revenue for the year ended December 31, 2018. In addition, the Solutions business has been developing proprietary vertical solutions in sectors such as travel and transportation to help enterprise customers undergo their digital transformation.

The Solutions business is also witnessing signs of progress in building its reputation, customer base and delivery resources in markets outside of Hong Kong and mainland China including Singapore and the Philippines. These markets will provide new sources of revenue growth as well as cost-effective, high quality resources to service projects in Hong Kong. As of the end of 2018, the Solutions business had 506 staff in its offshore delivery center in the Philippines.

EBITDA for the year ended December 31, 2018 was steady at HK$1,080 million with the EBITDA margin at 26%. While there was growth in project-based EBITDA, it was reinvested to support the growth in new markets and develop new capabilities and expertise within the Solutions business.

The Solutions business had secured orders of HK$7,193 million as at the year ended December 31, 2018. Significant wins included projects related to the airport terminal communications and networking systems expansion and digital signage solutions for car parks and roads around the Hong Kong International Airport. The Solutions business also secured a data center expansion mandate for a leading global investment bank.

With its data center facilities operating at close to full utilization, the Solutions business has recently commenced building a Tier 3 data center facility with 15 MW capacity and a total floor area of over 185,000 square feet to address the growing demand for data center capacity in Hong Kong. Upon completion, the total number of racks in the data centers operated by the Solutions business will expand from around 7,000 in 2017 to over 9,000.

Riding on its strong presence in Hong Kong and a solid momentum in its regional expansion, the Solutions business will continue to develop its expertise and capabilities to support its customers' digital transformation initiatives.

PCPD

PCPD recorded total revenue of HK$300 million for the year ended December 31, 2018 compared with total revenue of HK$164 million a year earlier. The improvements were attributable to an increase of gross rental income from Indonesia to approximately HK$138 million for the year ended December 31, 2018, as compared to approximately HK$3 million in 2017 as tenants began moving in. PCPD's loss attributable to equity holders was HK$437 million for the year ended December 31, 2018 compared with HK$339 million a year earlier.

PCP, Jakarta had a stable performance in 2018. To date, approximately 84% of the office floor space has been reserved or committed.

In 2018, PCPD arranged several successful sales events in Japan and Thailand for its project in Hokkaido, Park Hyatt Niseko Hanazono and Branded Residences of which 98 units have been sold or reserved to date representing 86% of available units for sale. The development is expected to be completed in late 2019 with revenue starting to be recognized in 2020.

The project in Phang-nga Thailand is proceeding according to schedule with the announcement of the construction of golf course and supporting facilities in December 2018 which are considered beneficial to the overall development.

In January 2018, PCPD acquired Nos. 3-6 Glenealy in Central and plans to redevelop it into either a luxury residence or for commercial use (subject to obtaining relevant government approvals).

For a more detailed review of the performance of PCPD, please refer to its 2018 annual results announcement released on February 21, 2019.

OTHER BUSINESSES

Other Businesses primarily comprises corporate support functions. The EBITDA cost of the Group's Other Businesses for the year ended December 31, 2018 was steady at HK$593 million (2017: HK$593 million).

ELIMINATIONS

Eliminations for the year ended December 31, 2018 were HK$4,698 million (2017: HK$4,024 million). This reflects the continued collaboration amongst the Company's business segments to harvest the quad-play position for our consumer segment and to offer total solutions for our enterprise customers.

COSTS

Cost of Sales

For the year ended December 31, HK$ million	2017 (Restated) H1	H2	Full Year	**2018** H1	H2	Full Year	Better/ (Worse) y-o-y
HKT	7,124	8,848	15,972	**8,858**	**9,122**	**17,980**	(13)%
The Group (excluding PCPD)	8,377	9,930	18,307	**10,125**	**10,467**	**20,592**	(12)%
Consolidated	8,402	9,942	18,344	**10,152**	**10,490**	**20,642**	(13)%

HKT's 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 higher proportion of Mobile Product Sales. Excluding Mobile Product Sales, the gross margin was steady at 59% for the year.

Cost of sales for the core businesses increased by 12%, primarily driven by the increase at HKT of higher mobile handset sales. Gross margin for the core businesses was 47% as compared to 50% a year ago.

The Group's consolidated total cost of sales for the year ended December 31, 2018 increased by 13% to HK$20,642 million.

General and Administrative Expenses

For the year ended December 31, 2018, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment and right-of-use assets, net, ("operating costs") decreased by 1% year-on-year to HK$5,973 million. This was mainly driven by sustained improvements in operating efficiencies at HKT. Although investments were made in marketing activities in the Media business necessary to support the rollout of the OTT business to new markets and geographical expansion of the Solutions business, the operating costs to revenue ratio improved from 16% to 15% for the year ended December 31, 2018.

Depreciation expenses remained stable at HK$3,510 million while amortization expenses increased by 6% to HK$3,481 million mainly due to content investment in the OTT and Free TV businesses in the Media segment. Content related amortization for the year was HK$669 million, compared to HK$528 million a year ago.

As a result, general and administrative expenses increased slightly by 1% year-on-year to HK$12,970 million.

EBITDA[1]

Core EBITDA for the year ended December 31, 2018 decreased by 2% to HK$12,400 million with the margin declining to 32% due to the dilutionary impact of Mobile Product Sales. Excluding Mobile Product Sales, the core EBITDA margin was 38%.

Other (losses)/gains, net

Net other gains of HK$643 million, primarily representing gains on the disposal of certain assets and Media investments as well as dividend income from our investment portfolio, were recorded for the year ended December 31, 2018, as compared to net losses of HK$35 million a year ago.

Interest Income and Finance Costs

Interest income for the year ended December 31, 2018 was steady at HK$134 million. Finance costs increased by 16% to HK$1,899 million mainly due to the overall increase in HIBOR and an increase in borrowings at PCPD to support ongoing development projects. As a result, net finance costs increased by 17% to HK$1,765 million for the year ended December 31, 2018. The average cost of debt was 3.3% as compared to 3.0% a year ago.

Income Tax

Income tax expense for the year ended December 31, 2018 was HK$1,134 million, as compared to HK$1,061 million a year ago. The increase was primarily attributable to the lower tax expense at HKT a year earlier due to the recognition of a deferred income tax asset resulting from a loss-making company turning profitable.

Non-controlling Interests

Non-controlling interests were HK$2,153 million for the year ended December 31, 2018 (2017: HK$2,189 million), which primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2018 was steady at HK$897 million (2017: HK$895 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.

The Group's gross debt[2] was HK$50,240 million as at December 31, 2018 (December 31, 2017: HK$47,580 million). Cash and short-term deposits totaled HK$7,361 million as at December 31, 2018 (December 31, 2017: HK$13,267 million). The Group, excluding HKT and PCPD, had net debt of HK$278 million as at December 31, 2018.

As at December 31, 2018, the Group had a total of HK$40,112 million in committed bank loan facilities available for liquidity management, of which HK$15,092 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$27,442 million, of which HK$4,710 million remained undrawn.

The Group's gross debt[2] to total assets was 53% as at December 31, 2018 (December 31, 2017: 51%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

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

CAPITAL EXPENDITURE[3]

Group capital expenditure for the year ended December 31, 2018 was HK$3,902 million (2017: HK$3,410 million), of which HKT accounted for about 66% (2017: 78%). Capital expenditure at HKT was primarily incurred for mobile coverage expansion, critical infrastructure enhancements to prepare for 5G, continued demand for fiber-to-the-home ("FTTH") services and customized solutions for enterprises. There was an increase in capital expenditure for the Media business mainly for the relocation and upgrading of its production studio facilities. Capital expenditure for the Solutions business decreased but is expected to ramp up again to expand data center capacity in Hong Kong to meet customer demand. There was an increase in capital expenditure at PCPD to support the Park Hyatt Niseko Hanazono and Branded Residences project.

The Group 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, the Group continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Group determines appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with the Group's policies and guidelines, which are reviewed on a regular basis.

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

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

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

CHARGE ON ASSETS

As at December 31, 2018, certain assets of the Group with an aggregate carrying value of HK$5,052 million (2017: HK$1,128 million) were pledged to secure certain bank loan facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2017	**2018**
Performance guarantees	572	**566**
Others	130	**160**
	702	**726**

The Group operates across several jurisdictions and is subject to certain queries from relevant tax authorities in respect of tax treatment of certain matters currently under way. As at December 31, 2018, the Group is unable to ascertain the likelihood of the outcome of these tax queries, other than those provided for. Based on the currently available information and assessment, the Directors are of the opinion that these cases will not have a significant financial impact to the Group.

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

HUMAN RESOURCES

The Group had over 23,600 employees as at December 31, 2018 (2017: 24,000) located in over 47 countries and cities. About 63% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. The Group has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 22.33 HK cents (2017: 21.18 HK cents) per ordinary share for the year ended December 31, 2018 to shareholders whose names appear on the register of members of the Company on Friday, May 17, 2019, subject to the approval of shareholders of the Company at the forthcoming annual general meeting which will be held on Thursday, May 9, 2019 ("AGM"). An interim dividend of 8.91 HK cents (2017: 8.57 HK cents) per ordinary share for the six months ended June 30, 2018 was paid to shareholders of the Company in October 2018.

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REPORT OF THE DIRECTORS

The board of directors (the "Board") presents its report together with the audited consolidated financial statements of PCCW Limited ("PCCW" or the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, and the principal activities of the Group are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales; the provision of interactive pay-TV services, over-the-top (OTT) digital media entertainment service in the Hong Kong Special Administrative Region ("Hong Kong") and other parts of the world; investments in, and development of, systems integration, network engineering, and information technology-related businesses; and development and management of premium-grade property and infrastructure projects as well as premium-grade property investments. Through HK Television Entertainment Company Limited ("HKTVE"), PCCW also operates a domestic free television service in Hong Kong.

The principal activities of the Company's principal subsidiaries, and the principal associate and joint venture of the Group are set out in notes 23 to 25 to the consolidated financial statements.

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

BUSINESS REVIEW

A fair review of the business of the Group during the year and particulars of important events affecting the Group that have occurred since the end of the financial year 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 3, pages 4 to 7 and pages 42 to 52 respectively. The above discussions form part of this report.

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

Principal Risks and Uncertainties

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

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

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

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

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

BUSINESS REVIEW *(CONTINUED)*

Principal Risks and Uncertainties *(continued)*

Competition – The Group operates in markets and industries where the regulation is pro-competition and pro-consumer. This has led to increased competition and pricing pressure, 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 shareholder return and a sound capital position. Adjustments are made, when necessary, to maintain an optimal capital structure in light of changes in economic conditions and to reduce the cost of capital. As for financing, a significant portion of the Group's debt is denominated in foreign currencies including United States dollars. Accordingly, forward and swap contracts are used to manage the Group's exposure to adverse fluctuations in foreign currency exchange rates and interest rates.

For details of the Group's financial management policies and strategies in managing these financial risks, please refer to the Management's Discussion and Analysis of this annual report and note 42 to the consolidated financial statements.

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

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

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.

BUSINESS REVIEW *(CONTINUED)*

Principal Risks and Uncertainties *(continued)*

Regulatory and Operational Compliance – The Group operates in markets and industries which require compliance with numerous regulations, including but not limited to, the Telecommunications Ordinance (Cap. 106), the Broadcasting Ordinance (Cap. 562), the Trade Descriptions Ordinance (Cap. 362), the Competition Ordinance (Cap. 619), the Personal Data (Privacy) Ordinance (Cap. 486) and the Payment Systems and Stored Value Facilities Ordinance (Cap. 584). The failure to be responsive to changes to such regulations may adversely affect the Group's reputation, operations and financial performance. Please refer to sub-section headed "**Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group**" below for further discussion on this topic.

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

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

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

Environmental Policies and Performance

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

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

PCCW is a constituent member of the Hang Seng Corporate Sustainability Index Series and FTSE4Good Index Series.

To minimize light nuisance, HKT Limited ("HKT") has been supporting the WWF's annual Earth Hour campaign for years. PCCW is a signatory to the Charter on External Lighting scheme of the Environment Bureau and in 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, between HKT and CLP Holdings Limited to encourage electric mobility for a cleaner environment. HKT and its subsidiaries (collectively the "HKT Limited Group") have been investing in modernizing air-conditioning systems and equipment at the exchange buildings with better energy efficiency to reduce energy consumption.

We have well-established practices in recycling scrap metals which include copper, iron and steel as well as scrap materials. We also promote handset recycling across our shop network. 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.

BUSINESS REVIEW *(CONTINUED)*

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.

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

Pacific Century Premium Developments also strives to integrate sustainability into their business operation. Pacific Century Place, Jakarta, in Indonesia was awarded Final LEED Platinum Certification in 2018 in recognition of its sustainable features. Pacific Century Premium Developments head office in Cyberport, Hong Kong, has been recognized as Green Office and Eco-Healthy Workplace by the World Green Organisation.

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

Relationships with Stakeholders

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

PCCW considers its employees the key to sustainable business growth. We are committed to providing 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 PCCW 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. The Group continues to expand its global presence and 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.

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

We have established robust succession and strong talent pipeline, comprehensive training and leadership programs to nurture the 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.

BUSINESS REVIEW *(CONTINUED)*

Relationships with Stakeholders *(continued)*

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 operates Hong Kong's leading telecommunications and pay-TV services with large customer bases across various services. Customer related key performance indicators are set out in the Management's Discussion and Analysis of this annual report.

As a customer-focused service provider, we consider customers as one of the most important stakeholders. With a commitment to transforming customers' lifestyle, PCCW offers innovative services such as Smart Living to help customers build a modern and convenient home.

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 our outstanding customer service, among other awards, we won more than 150 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. The Group received over 52,800 customer compliments in 2018. In addition, HKT 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.

PCCW 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. PCCW joined the Sustainable Procurement Charter launched by the Green Council as one of its founding members.

PCCW 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 HKT Limited Group provides hardware and communications services for charities and various community groups in need. We also strive to connect elderly people with technologies that promote active and smart aging. 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, PCCW has 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.

Relationships with Stakeholders *(continued)*

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. PCCW 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, PCCW operates a Volunteer Appreciation Scheme whereby employees participating in community services may be entitled to volunteer leave days.

PCCW is awarded the 15 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 15 years.

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

The Group and its activities are subject to requirements under various laws and regulations. These include, among others, the Telecommunications Ordinance (Cap. 106), the Broadcasting Ordinance (Cap. 562), the Trade Descriptions Ordinance (Cap. 362), the Competition Ordinance (Cap. 619), the Personal Data (Privacy) Ordinance (Cap. 486), the Payment Systems and Stored Value Facilities Ordinance (Cap. 584), the Employment Ordinance (Cap. 57), and the applicable regulations, guidelines, policies and licence terms issued or promulgated under or in connection with these statutes. In addition, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") apply to PCCW. The Company seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group. While these measures require considerable internal resources and result in additional operational cost, the Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

Telecommunications Ordinance ("TO")

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

Broadcasting Ordinance ("BO")

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

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

BUSINESS REVIEW *(CONTINUED)*

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

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.

GROUP RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2018 are set out in the consolidated income statement on page 93.

An interim dividend of 8.91 HK cents per ordinary share (2017: 8.57 HK cents per ordinary share), totaling approximately HK$688 million, was paid to shareholders of the Company in October 2018.

The Board has recommended the payment of a final dividend of 22.33 HK cents per ordinary share (2017: 21.18 HK cents per ordinary share) for the year ended December 31, 2018, subject to the approval of shareholders of the Company at the forthcoming annual general meeting.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 223.

FIXED ASSETS

Details of movements in the Group's property, plant and equipment, investment properties and interests in leasehold land during the year are set out in notes 16, 18 and 19 respectively to the consolidated financial statements.

BORROWINGS

Particulars of the Group's and the Company's borrowings are set out in notes 29(f) and 30 to the consolidated financial statements.

SHARES ISSUED

There were no new shares of the Company (the "Shares") 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 33 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 36 to the consolidated financial statements.

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 are:

Executive Directors

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

Non-Executive Directors

Tse Sze Wing, Edmund, GBS
Li Fushen *(Deputy Chairman)*
Shao Guanglu
Zhu Kebing
Wei Zhe, David

Independent Non-Executive Directors

Aman Mehta
Frances Waikwun Wong
Bryce Wayne Lee
Lars Eric Nils Rodert
David Christopher Chance
David Lawrence Herzog

During the year ended December 31, 2018 and up to the date of this report, the following changes were made to the composition of the Board:

1. Lu Yimin resigned as a non-executive director of the Company and the Deputy Chairman of the Board with effect from September 18, 2018;

2. Li Fushen was appointed as the Deputy Chairman of the Board with effect from September 18, 2018;

3. Zhu Kebing was appointed as a non-executive director of the Company with effect from September 18, 2018; and

4. Dr The Hon Sir David Li Kwok Po resigned as an independent non-executive director of the Company with effect from December 31, 2018.

In accordance with Article 91 of the Company's articles of association, Zhu Kebing shall retire from office at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 101 of the Company's articles of association, Li Tzar Kai, Richard, Wei Zhe, David, Frances Waikwun Wong and Lars Eric Nils Rodert shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all six independent non-executive directors as at the date of this report, namely, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee, Lars Eric Nils Rodert, David Christopher Chance and David Lawrence Herzog 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 the Company) announced the execution of a term sheet between PCRD Services Pte Ltd ("PCRD Services", a wholly-owned subsidiary of PCRD) and, amongst the others, KSH Distriparks Private Limited ("KSH Distriparks"), Pasha Ventures Private Limited ("Pasha Ventures"), Aman Mehta (an independent non-executive director of the Company) and Akash Mehta (the adult son of Aman Mehta) (together, the "Mehta Family") and Sky Advance Associates Limited ("Sky Advance", a company controlled by Akash Mehta) in relation to a proposed restructuring (the "Restructuring") of their respective interests in Pasha Ventures and KSH 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 or PCCW.

Notwithstanding Aman Mehta's investment in KSH, the Company is of the view that Aman Mehta's continued independence in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules is not affected by this investment for the following reasons: (i) Aman Mehta's investment in KSH is a purely passive personal investment; he 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 annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

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

1. Interests in the Company

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

	Number of ordinary Shares held					
Name of Director/Chief Executive	Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of Shares in issue
Li Tzar Kai, Richard	–	–	307,694,369 *(Note 1(a))*	1,928,842,224 *(Note 1(b))*	2,236,536,593	28.97%
Srinivas Bangalore Gangaiah	782,138	–	–	2,963,665 *(Note 2)*	3,745,803	0.05%
Hui Hon Hing, Susanna	5,397,585	–	–	1,367,629 *(Note 2)*	6,765,214	0.09%
Lee Chi Hong, Robert	992,600 *(Note 3(a))*	511 *(Note 3(b))*	–	–	993,111	0.01%
Tse Sze Wing, Edmund	–	367,479 *(Note 4)*	–	–	367,479	0.005%
Dr The Hon Sir David Li Kwok Po *(Note 5)*	1,132,611	–	–	–	1,132,611	0.01%

Notes:

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

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

1. Interests in the Company *(continued)*

Notes: *(continued)*

1. (b) These interests represented:

   (i) a deemed interest in 175,312,270 Shares held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 175,312,270 Shares held by PCGH; and

   (ii) a deemed interest in 1,753,529,954 Shares held by PCRD, a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 88.58% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,753,529,954 Shares held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.06% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard.

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

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

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

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

5. Dr The Hon Sir David Li Kwok Po resigned as an independent non-executive director of the Company with effect from December 31, 2018.

2. Interests in the Associated Corporations of the Company

A. HKT Trust and HKT Limited

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

Name of Director/Chief Executive	Number of Share Stapled Units held Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of Share Stapled Units in issue
Li Tzar Kai, Richard	–	–	66,247,614 *(Note 1(a))*	158,764,423 *(Note 1(b))*	225,012,037	2.97%
Srinivas Bangalore Gangaiah	112,095	–	–	95,744 *(Note 2)*	207,839	0.003%
Hui Hon Hing, Susanna	3,049,620	–	–	629,253 *(Note 3)*	3,678,873	0.05%
Lee Chi Hong, Robert	50,924 *(Note 4(a))*	25 *(Note 4(b))*	–	–	50,949	0.0007%
Tse Sze Wing, Edmund	–	246,028 *(Note 5)*	–	–	246,028	0.003%
Dr The Hon Sir David Li Kwok Po *(Note 6)*	200,000	–	–	–	200,000	0.003%

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

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

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

Each Share Stapled Unit confers an interest in:

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

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

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

Notes:

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

   (b) These interests represented:

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

   (ii) a deemed interest in 145,604,804 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 145,604,804 Share Stapled Units held by PCRD.

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

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

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

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

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

6. Dr The Hon Sir David Li Kwok Po resigned as an independent non-executive director of the Company with effect from December 31, 2018.

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

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

B. PCPD Capital Limited

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

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

Notes:

1. These 2022 Bonds were held by Ultimate Talent Limited, a wholly-owned subsidiary of Elderfield Limited ("Elderfield"). Li Tzar Kai, Richard owned 100% of the issued share capital of Elderfield.

2. These 2022 Bonds were held jointly by Lee Chi Hong, Robert and his spouse.

3. These 2022 Bonds were held by Frances Waikwun Wong in the capacity of the founder of a discretionary trust.

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

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

1. The Company

A. Share Option Scheme

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

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

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

(3) The maximum number of Shares in respect of which options may be granted under the 2014 Scheme shall not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the 2014 Scheme. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders' approval. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Scheme and other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time. As at the date of this annual report, the total number of Shares available for issue in respect of which options may be granted under the 2014 Scheme is 728,229,465, representing approximately 9.43% of the Shares in issue as at that date.

(4) The total number of Shares issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2014 Scheme in any 12-month period shall not exceed 1% of the Shares in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, the said limit is reduced to 0.1% of the Shares in issue and HK$5 million in aggregate value based on the closing price of the Shares on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders' approval at general meeting.

(5) The 2014 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2014 Scheme shall be determined by the Board, provided that such terms and conditions shall not be inconsistent with the 2014 Scheme and no option may be exercised 10 years after the date of grant.

(6) The 2014 Scheme does not specify any consideration which is payable on the acceptance of an option. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant.

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

1. The Company *(continued)*

A. Share Option Scheme *(continued)*

(7) The exercise price in relation to each option shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange for the 5 days last preceding the date of grant on which days it has been possible to trade Shares on the Stock Exchange.

(8) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the Board, the 2014 Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2014 Scheme shall remain in full force and effect in all other respects.

No share options have been granted under the 2014 Scheme since its adoption and up to and including December 31, 2018.

B. Share Award Schemes

The Company adopted two share incentive award schemes, namely the Purchase Scheme and the Subscription Scheme (collectively the "PCCW Share Award Schemes") with the purposes and objectives to recognize the contributions by eligible participants and to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

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

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

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

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

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

1. The Company *(continued)*

B. Share Award Schemes *(continued)*

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

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

The PCCW Share Award Schemes expired on November 15, 2012, and new scheme rules were adopted on the same date so as to allow both schemes to continue to operate for a further 10 years and to accommodate the grant of the Share Stapled Units in addition or as an alternative to the Shares, in the future. The Approving Body may by resolution terminate the operation of the schemes at any time subject to the terms of the schemes.

In respect of the Purchase Scheme, during the year ended December 31, 2018, an aggregate of 8,600,392 Shares and 1,347,040 Share Stapled Units were awarded pursuant to the Purchase Scheme subject to certain vesting conditions, including awards in respect of 4,059,207 Shares made to BG Srinivas, and 839,318 Shares and 120,158 Share Stapled Units made to Hui Hon Hing, Susanna (both of them are directors of the Company). Additionally, 4,888 Shares have lapsed and/or been forfeited and 7,649,601 Shares have vested; and 98,786 Share Stapled Units have lapsed and/or been forfeited and 1,273,854 Share Stapled Units have vested during the year. As at December 31, 2018, 7,661,032 Shares and 1,927,143 Share Stapled Units awarded pursuant to the Purchase Scheme remained unvested.

In respect of the Subscription Scheme, during the year ended December 31, 2018, an aggregate of 4,108,690 Shares were awarded pursuant to the Subscription Scheme subject to certain vesting conditions. Additionally, 450,425 Shares have lapsed and/or been forfeited and 3,629,706 Shares have vested during the year. As at December 31, 2018, 5,696,057 Shares awarded pursuant to the Subscription Scheme remained unvested. During the year ended December 31, 2018, no Share Stapled Units have been awarded to any employees of the Company and/or its subsidiaries under the Subscription Scheme. As at January 1, 2018 and December 31, 2018, no Share Stapled Units awarded pursuant to the Subscription Scheme remained unvested.

As at the date of this annual report, an aggregate of 13,357,089 Shares and 1,927,143 Share Stapled Units awarded pursuant to the PCCW Share Award Schemes remained unvested, which respectively represent approximately 0.17% of the total number of Shares in issue and 0.03% of the total number of Share Stapled Units in issue as at that date.

Further details of the PCCW Share Award Schemes, including the fair values of the Shares and the Share Stapled Units on the respective dates of award, are set out in note 35 to the consolidated financial statements.

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

2. HKT Trust and HKT Limited

A. Share Stapled Units Option Scheme

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Share Stapled Units Award Schemes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended December 31, 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 268,525 Share Stapled Units made to Hui Hon Hing, Susanna (a director of the Company). 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.

Further details of the HKT Share Stapled Units Award Schemes, including the fair values of the Share Stapled Units on the respective dates of award, are set out in note 35 to the consolidated financial statements.

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

Share Option Scheme

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

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

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

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

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

Share Option Scheme *(continued)*

(3) The maximum number of PCPD Shares in respect of which options may be granted under the 2015 PCPD Scheme shall not in aggregate exceed 10% of the PCPD Shares in issue as at the date of adoption of the 2015 PCPD Scheme. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders' approval. The overall limit on the number of PCPD Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 PCPD Scheme and other share option schemes of PCPD must not exceed 30% of the PCPD Shares in issue from time to time. As at the date of this annual report, the total number of PCPD Shares available for issue in respect of which options may be granted under the 2015 PCPD Scheme is 40,266,831, representing approximately 10.01% of the PCPD Shares in issue as at that date.

(4) The total number of PCPD Shares issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of PCPD, or any of their respective associates) under the 2015 PCPD Scheme in any 12-month period shall not exceed 1% of the PCPD Shares in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of PCPD, or any of their respective associates, the said limit is reduced to 0.1% of the PCPD Shares in issue and HK$5 million in aggregate value based on the closing price of the PCPD Shares on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders' approval at general meeting.

(5) The 2015 PCPD Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2015 PCPD Scheme shall be determined by the PCPD Board, provided that such terms and conditions shall not be inconsistent with the 2015 PCPD Scheme and no option may be exercised 10 years after the date of grant.

(6) The 2015 PCPD Scheme does not specify any consideration which is payable on the acceptance of an option. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant.

(7) The exercise price in relation to each option shall not be less than the higher of (i) the closing price of the PCPD Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the PCPD Shares as stated in the daily quotation sheet of the Stock Exchange for the 5 days last preceding the date of grant on which days it has been possible to trade PCPD Shares on the Stock Exchange.

(8) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the PCPD Board, the 2015 PCPD Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2015 PCPD Scheme shall remain in full force and effect in all other respects.

No share options have been granted under the 2015 PCPD Scheme since its adoption and up to and including December 31, 2018.

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

EQUITY-LINKED AGREEMENTS

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

The Group has the share option schemes and the share award schemes with details set out in the section above headed "**Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries**" and note 35 to the consolidated financial statements.

As at December 31, 2018, there also subsisted in the Group certain outstanding bonus convertible notes issued by PCPD in 2012 in the aggregate amount of HK$592,553,354.40 convertible into 1,185,106,708 ordinary PCPD Shares at the conversion price of HK$0.50 per PCPD Share. The bonus convertible notes can be converted into PCPD Shares at any time provided that PCPD's minimum public float requirements under the Listing Rules could be complied with.

On January 15, 2018, the PCPD Group, through its wholly-owned subsidiary as purchaser (the "Purchaser"), entered into a sale and purchase agreement (the "SPA") with CSI Properties Limited ("CSI", a company in which Chung Cho Yee, Mico, who is a non-executive director of HKT, is also a controlling shareholder and director) and its subsidiary (collectively the "CSI Group") as vendor, whereby the PCPD Group would acquire from the CSI Group the entire issued share capital of, and the entire shareholder's loan owed to a subsidiary of the PCPD Group by, an investment holding company of the CSI Group which owned, through its wholly-owned subsidiaries, interests in certain properties located at Central, Hong Kong (the "Properties") for the purpose of joint redevelopment, for a consideration comprising an initial cash payment of HK$2,018 million (subject to adjustments) and the allotment and issue of one non-voting participating share of the Purchaser credited as fully paid up (the "NPS") at an issue price of US$1.00 to the CSI Group upon completion of the SPA ("Completion"). Completion occurred on March 23, 2018. The NPS would, among others, entitle the CSI Group the right to be paid or distributed 50% of the dividends declared or distributions made by the Purchaser. Subject to certain contingent event having occurred which would give rise to the right to Conversion (as defined below) of NPS and subject to, among others, payment to the PCPD Group by the CSI Group in accordance with the shareholders' memorandum (the "Shareholders' Memorandum") entered into at Completion, the NPS held by the CSI Group would be converted to one new fully paid up ordinary share of the Purchaser (the "Conversion"), representing 50% of the Purchaser's entire issued share capital immediately following the Conversion. As at December 31, 2018, the Conversion has not occurred. Details of the SPA, the Shareholders' Memorandum and the transactions contemplated thereunder can be found in the joint announcement of the Company and PCPD dated January 15, 2018 (the "Joint Announcement"), the section below headed "**Connected Transactions and Continuing Connected Transactions**" and note 20 to the consolidated financial statements.

On March 16, 2018, the PCPD Group entered into a joint venture agreement (the "JV Agreement") with Paradise Pinetree Development Limited ("Paradise", a company wholly-owned by Dr Allan Zeman who is a non-executive director of PCPD) to form a joint venture entity (the "JV Company") for the investment in and development of a site in Phang Nga Province of Thailand owned by Thai land holding companies (the "Thai Land Holding Companies") which are consolidated in PCPD's consolidated financial statements (the "Project Site") for residential properties development. Pursuant to the JV Agreement, as initial capital contribution, the PCPD Group would contribute US$20 million (approximately HK$156 million) by way of transfer of the legal and/or beneficial ownership and all rights over the Project Site by the Thai Land Holding Companies, and Paradise would inject US$2,219,753 (approximately HK$17.3 million) in cash; and the PCPD Group and Paradise would subscribe for 9,000 and 999 ordinary shares of the JV Company at par of US$1.00 each respectively, with the remaining balances to constitute the principal amounts of the shareholder loans. Immediately following completion of the joint venture formation and upon satisfaction of certain conditions as disclosed in the announcement of PCPD dated March 16, 2018 (the "PCPD Announcement"), on April 30, 2018, a total of 9,999 new ordinary shares were issued and the total issued share capital of the JV Company was held as to 90.01% and 9.99% by the PCPD Group and Paradise respectively. Details of the JV Agreement and the subscriptions contemplated thereunder can be found in the PCPD Announcement.

EQUITY-LINKED AGREEMENTS *(CONTINUED)*

On August 10, 2017, the Group entered into a subscription agreement with three investors (the "OTT Investors"), pursuant to which the Group will allot and issue to the OTT Investors an aggregate of 11,000,000 series A convertible redeemable voting preference shares (the "OTT Preference Shares") of a par value of US$1.00 each in the capital of an indirect wholly-owned subsidiary of the Company ("PCCW OTT"), representing approximately 18% of its enlarged issued share capital, for a total consideration of US$110 million (approximately HK$859 million). PCCW OTT also granted an option (the "Option for OTT Preference Shares") to one of the OTT Investors to subscribe for up to a further 2,000,000 OTT Preference Shares at an exercise price of US$10.00 per option share, which may be exercised by such OTT Investor at any time within nine months after closing of the subscriptions by the OTT Investors. Closing occurred on September 25, 2017 and PCCW OTT issued a total of 11,000,000 OTT Preference Shares to the OTT Investors. During 2018, the Option for OTT Preference Shares was not exercised by the relevant OTT Investor and therefore lapsed. Details of the Option for OTT Preference Shares can be found in the announcement issued by the Company dated August 10, 2017 and note 39(a) to the consolidated financial statements.

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

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

The Supporting Agreement and the Investor Agreements have not been terminated as at December 31, 2018 and details of which can be found in the joint announcement issued by the Company and PCPD dated May 23, 2013, the circular issued by PCPD dated June 25, 2013 and note 35(c) to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2018, the following persons (other than directors or chief executives of the Company) were substantial shareholders of the Company and had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of shareholder	*Note(s)*	Number of Shares/underlying Shares held	Approximate percentage of the total number of Shares in issue
Long Positions			
PCRD		1,753,529,954	22.72%
PCGH	*1*	1,928,842,224	24.99%
Star Ocean Ultimate Limited	*2 and 3*	1,928,842,224	24.99%
The Ocean Trust	*2*	1,928,842,224	24.99%
The Starlite Trust	*2*	1,928,842,224	24.99%
OS Holdings Limited	*2*	1,928,842,224	24.99%
Ocean Star Management Limited	*2*	1,928,842,224	24.99%
The Ocean Unit Trust	*2*	1,928,842,224	24.99%
The Starlite Unit Trust	*2*	1,928,842,224	24.99%
Star Ocean Ultimate Holdings Limited	*3*	1,928,842,224	24.99%
Fung Jenny Wai Ling	*4*	1,928,842,224	24.99%
Huang Lester Garson	*4*	1,928,842,224	24.99%
China United Network Communications Group Company Limited ("Unicom")	*5*	1,424,935,885	18.46%
BlackRock, Inc.	*6*	396,113,139	5.13%
Short Positions			
BlackRock, Inc.	*7*	581,028	0.01%

Notes:

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

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

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

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

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

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

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

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

As at December 31, 2018, the following person (other than directors or chief executives or substantial shareholders (as disclosed in the previous section headed "**Interests and Short Positions of Substantial Shareholders**") of the Company) had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO:

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

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

Save as disclosed above in this section and the previous section headed "**Interests and Short Positions of Substantial Shareholders**", the Company has not been notified of any other persons (other than directors or chief executives of the Company) who had an interest or a short position in the Shares, underlying Shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO as at 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 6 to the consolidated financial statements.

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

Name of Director	Name of company	Nature of business	Nature of interests
Li Tzar Kai, Richard	CK Hutchison Holdings Limited ("CK Hutchison") and its subsidiaries	Ports and related services, retail, infrastructure, energy and telecommunications	*(Note)*
	CK Asset Holdings Limited ("CK Asset") and its subsidiaries	Property development and investment, hotel and serviced suite operation, property and project management, joint ventures in infrastructure and utility asset operation and aircraft leasing	*(Note)*

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(CONTINUED)*

Name of Director	Name of company	Nature of business	Nature of interests
Lu Yimin (resigned with effect from September 18, 2018)	Unicom and its subsidiaries	Telecommunications business and other related businesses	President and Vice Chairman of Unicom *(resigned from both with effect from July 10, 2018)*
	China United Network Communications Limited ("Unicom A-Share") and its subsidiaries	Telecommunications business and other related businesses	Director and President of Unicom A-Share *(resigned from both with effect from July 10, 2018)*
	China Unicom (Hong Kong) Limited ("Unicom HK") and its subsidiaries	Telecommunications business and other related businesses	Executive Director and President of Unicom HK *(resigned from both with effect from July 10, 2018)*
Li Fushen	Unicom and its subsidiaries	Telecommunications business and other related businesses	Director *(ceased to act as Vice President and Chief Accountant with effect from May 21, 2018)* of Unicom
	Unicom A-Share and its subsidiaries	Telecommunications business and other related businesses	Director *(appointed as Senior Vice President with effect from February 9, 2018 and ceased to act with effect from August 15, 2018)* of Unicom A-Share
	Unicom HK and its subsidiaries	Telecommunications business and other related businesses	Executive Director *(ceased to act as Chief Financial Officer with effect from August 10, 2018)* of Unicom HK
Shao Guanglu	Unicom and its subsidiaries	Telecommunications business and other related businesses	Vice President of Unicom
	Unicom A-Share and its subsidiaries	Telecommunications business and other related businesses	Director *(ceased to act with effect from February 9, 2018)* and Senior Vice President *(appointed with effect from February 9, 2018)* of Unicom A-Share
	Unicom HK and its subsidiaries	Telecommunications business and other related businesses	Executive Director and Senior Vice President of Unicom HK
	China Communications Services Corporation Limited ("CCSCL")	Telecommunications infrastructure services, business process outsourcing services and applications, content and other services	Non-Executive Director of CCSCL

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(CONTINUED)*

Name of Director	Name of company	Nature of business	Nature of interests
Zhu Kebing (appointed with effect from September 18, 2018)	Unicom and its subsidiaries	Telecommunications business and other related businesses	Chief Accountant of Unicom
	Unicom A-Share and its subsidiaries	Telecommunications business and other related businesses	Chief Financial Officer and Board Secretary of Unicom A-Share
	Unicom HK and its subsidiaries	Telecommunications business and other related businesses	Executive Director and Chief Financial Officer of Unicom HK

Note:
Li Tzar Kai, Richard has a personal interest in 75,240 shares in each of CK Hutchison and CK Asset, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of CK Hutchison and CK Asset. Certain businesses of CK Hutchison and CK Asset may compete with certain aspects of the businesses of the Group during the year.

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

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

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

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

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

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

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

PERMITTED INDEMNITY

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

DONATIONS

During the year, the Group made donations for charitable and other purposes of approximately HK$2.6 million (2017: HK$377,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

1. **Connected Transactions**

   On January 15, 2018, the PCPD Group, as purchaser, entered into the SPA with the CSI Group, as vendor, whereby the PCPD Group would acquire from the CSI Group the entire issued share capital of, and the entire shareholder's loan owed to a subsidiary of the PCPD Group by, an investment holding company of the CSI Group which owned, through its wholly-owned subsidiaries, interests in the Properties for the purpose of joint redevelopment for a consideration comprising an initial cash payment of HK$2,018 million (subject to adjustments) and the allotment and issue of one NPS to the CSI Group upon completion of the SPA.

   The controlling shareholder and director of the CSI Group, Chung Cho Yee, Mico, is also a non-executive director of HKT and the Trustee-Manager which are subsidiaries of PCCW, the CSI Group is therefore a connected person at the subsidiary level of PCCW under the Listing Rules. As Chung Cho Yee, Mico was a director of a subsidiary of PCPD in the last 12 months from the date when the SPA was entered, the CSI Group was also a connected person at the subsidiary level of PCPD under the Listing Rules. Accordingly, the entering into of the SPA and the Shareholders' Memorandum, and the transactions contemplated thereunder including the formation of the joint venture contemplated under the SPA and the Shareholders' Memorandum and the Conversion (the "CSI Transactions"), constituted connected transactions for both PCCW and PCPD, and PCCW and PCPD issued the Joint Announcement on January 15, 2018 to disclose the CSI Transactions in accordance with the requirements under Chapter 14A of the Listing Rules.

   Please refer to the Joint Announcement and the section above headed "**Equity-linked Agreements**" for details.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. Continuing Connected Transactions

During the year ended December 31, 2018, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) of the Company and details of which are set out below in accordance with the Listing Rules.

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

A wholly-owned subsidiary of Unicom is a substantial shareholder and connected person (as defined in the Listing Rules) of the Company. In addition, Unicom's indirect subsidiary is a substantial shareholder of Unicom Yellow Pages Information Co., Ltd., an indirect subsidiary of the Company. Accordingly, the Unicom Group is a connected person of the Company and transactions between the Group and the Unicom Group constitute connected transactions for the Company under the Listing Rules.

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

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

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

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

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

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

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

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

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

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

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

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

2. Continuing Connected Transactions *(continued)*

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

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

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

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

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

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

During 2018, Hong Kong Telecommunications (HKT) Limited ("HKTL"), an indirect wholly-owned subsidiary of HKT which in turn is a subsidiary of the Company, entered into a customized fibre network right of use agreement with China Unicom (Hong Kong) Operations Limited, a subsidiary of the Unicom Group, relating to the grant of right to use the capacity of the customized fibre available on HKTL's network to the Unicom Group for a duration of 15 years. This contract is not materially different in nature to the IRU Contracts.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. Continuing Connected Transactions *(continued)*

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

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

Category	Approximate aggregate values for the financial year ended December 31, 2018 HK$'000	Annual caps for the Unicom Group for the financial year ended December 31, 2018 HK$'000
(1) Provision of data services by the Group to the Unicom Group	140,583	500,000
(2) Provision of data services by the Unicom Group to the Group	132,690	800,000
(3) Provision of systems integration services by the Group to the Unicom Group	36,247	300,000

As referred to in the Company's announcement dated January 4, 2008, PCCW Solutions (Guangzhou) Limited ("PCCW GZ"), an indirect wholly-owned subsidiary of the Company, entered into a lease and facility and management services agreement (the "Agreement") with China Network Communications Group Corporation Guangdong Branch ("CNC GD"), the Guangdong branch of China Network Communications Group Corporation ("CNC") in January 2008 with duration exceeding three years. These transactions constituted continuing connected transactions of the Company under the Listing Rules. It is considered that the entering into of the Agreement with the Unicom Group will complement and ensure stable, uninterrupted and reliable services to be provided by the Group and will allow the Group to achieve its commercial objectives and enhance the core business of the Group, which may enhance the business and performance of the Group.

Pursuant to the Agreement, CNC GD leases to PCCW GZ an area for use as a service centre and provides PCCW GZ with facility and management services in respect of certain area in CNC Science Town Telecommunications Hub Building situated in the Guangzhou Science Town, Guangdong Province, the PRC (the "Lease and Facility and Management Services"). Access Capital Limited (now known as Investec Capital Asia Limited), an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules, was of the view that the transactions under the Agreement may enhance and safeguard the business and performance of the Group, and the interests of the Company and its shareholders as a whole, and given the nature of the lease and the services to be provided by CNC GD under the Agreement and any supplemental agreement when it is entered into, it is a normal business practice for the Agreement and the supplemental agreement in relation to the optional extended areas (if and when it is entered into when the area extension option is exercised by PCCW GZ pursuant to the Agreement), if any, to have a duration of 15 years, with an option to renew for another five years. The approximate rental and service fees charged by CNC GD for the year ended December 31, 2018 was HK$19,141,186 which did not exceed the annual cap for the eleventh year of the 15-year term of HK$38,868,000.

The Unicom Transactions and the Lease and Facility and Management Services are collectively referred to as the "CU Transactions". The Company has complied with the applicable requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions during the year 2018.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. Continuing Connected Transactions *(continued)*

B. Annual Review of Continuing Connected Transactions

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

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CU Transactions for the year ended December 31, 2018 were entered into:

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

(ii) on normal commercial terms or better; and

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

RELATED PARTY TRANSACTIONS

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

PUBLIC FLOAT

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

AUDITOR

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

By order of the Board

Bernadette M. Lomas
Group General Counsel and Company Secretary
Hong Kong, February 25, 2019

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of PCCW Limited (the "Company") and its subsidiaries (the "Group") set out on pages 93 to 222, which comprise:

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

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

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

- Revenue recognition
- 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 4, 7 and 8 to the consolidated financial statements.

The Group recognized revenue of HK$38,850 million for the year ended December 31, 2018, including external revenue from HKT Limited ("HKT"), Media Business and Solutions Business of HK$33,665 million, HK$2,471 million and HK$2,417 million, respectively.

The 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 4 to the consolidated financial statements.

The Group enters into bundled sale contracts with customers in which, apart from the provision of telecommunications, media and solutions services, the Group has 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 HKT and Media 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.

The majority of revenue in Solutions Business is recognized over time using the input method based on the percentage of completion of the related contracts. The measurement of the revenue amount generated in each period, including estimates of the contract costs incurred to date and the total estimated contract costs, required individual consideration and significant management's judgement.

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;

- 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; and

- For revenue recognized over time, testing, on a sample basis, the amount of revenue recognized with regard to contract costs incurred to date and the total estimated contract costs, which were assessed for reasonableness with reference to supporting evidence.

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 21 to the consolidated financial statements.*	
As at December 31, 2018, the Group had goodwill amounting to HK$18,192 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 accounting policies and our understanding of the 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.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Income taxes *Refer to notes 13 and 37 to the consolidated financial statements.* The Group operates across several jurisdictions and is 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 recognized deferred income tax assets of HK$1,413 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 has 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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Adoption of HKFRS 16 – Leases *Refer to note 4 to the consolidated financial statements.* The 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 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 recognized lease liabilities of HK$4,479 million.	Our procedures in relation to the judgements and estimates used in the recognition of the 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 the Company are responsible for the other information. The other information comprises all of the information included in the PCCW Limited 2018 annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the 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 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 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 Consolidated Financial Statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 internal control.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the 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 to express an opinion on the 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 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 25, 2019

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

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2018

In HK$ million (except for earnings per share)	Note(s)	2017 (Restated#)	2018
Continuing operations			
Revenue	7, 8	36,832	**38,850**
Cost of sales		(18,344)	**(20,642)**
General and administrative expenses		(12,859)	**(12,970)**
Other (losses)/gains, net	9	(35)	**643**
Interest income		133	**134**
Finance costs	11	(1,636)	**(1,899)**
Share of results of associates		83	**97**
Share of results of joint ventures		(29)	**(29)**
Profit before income tax	7, 10	4,145	**4,184**
Income tax	13	(1,061)	**(1,134)**
Profit for the year from continuing operations		3,084	**3,050**
Discontinued operations			
Profit for the year from discontinued operations	29(h)	1,143	**–**
Profit for the year		4,227	**3,050**
Profit attributable to:			
Equity holders of the Company		2,038	**897**
Non-controlling interests		2,189	**2,153**
		4,227	**3,050**
Profit attributable to equity holders of the Company arising from:			
Continuing operations		895	**897**
Discontinued operations		1,143	**–**
		2,038	**897**
Earnings per share	15		
Basic earnings per share arising from:			
Continuing operations		11.62 cents	**11.63 cents**
Discontinued operations		14.83 cents	**–**
		26.45 cents	**11.63 cents**
Diluted earnings per share arising from:			
Continuing operations		11.60 cents	**11.62 cents**
Discontinued operations		14.82 cents	**–**
		26.42 cents	**11.62 cents**

See note 4 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 102 to 222 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2018

In HK$ million	2017 (Restated#)	**2018**
Profit for the year	4,227	**3,050**
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to consolidated income statement:		
Remeasurements of defined benefit retirement schemes obligations	38	**(30)**
Changes in fair value of equity instruments at fair value through other comprehensive income	–	**(81)**
	38	**(111)**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:		
Translation exchange differences:		
– exchange differences on translating foreign operations	324	**(357)**
– reclassification of currency translation reserve on disposal of subsidiaries	172	**–**
Available-for-sale financial assets:		
– changes in fair value	106	**–**
– transfer to consolidated income statement on disposal	(9)	**–**
Cash flow hedges:		
– effective portion of changes in fair value	(330)	**(173)**
– transfer from equity to consolidated income statement	(338)	**34**
Costs of hedging	–	**46**
	(75)	**(450)**
Other comprehensive loss for the year	(37)	**(561)**
Total comprehensive income for the year	4,190	**2,489**
Attributable to:		
Equity holders of the Company	2,177	**425**
Non-controlling interests	2,013	**2,064**
Total comprehensive income for the year	4,190	**2,489**
Total comprehensive income for the year attributable to equity holders of the Company arising from:		
Continuing operations	834	**425**
Discontinued operations	1,343	**–**
	2,177	**425**

See note 4 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 102 to 222 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018

In HK$ million	Note(s)	2017 (Restated#) Attributable to equity holders of the Company	Non-controlling interests	Total equity
At January 1, 2017 as originally presented		12,026	2,750	14,776
Changes in accounting policies	4	(639)	(302)	(941)
At January 1, 2017 (restated#)		11,387	2,448	13,835
Total comprehensive income for the year				
Profit for the year		2,038	2,189	4,227
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to consolidated income statement:				
Remeasurements of defined benefit retirement schemes obligations	34(a)	38	–	38
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
– exchange differences on translating foreign operations		235	89	324
– reclassification of currency translation reserve on disposal of subsidiaries	29(h)	172	–	172
Available-for-sale financial assets:				
– changes in fair value	26	106	–	106
– transfer to consolidated income statement on disposal		(9)	–	(9)
Cash flow hedges:				
– effective portion of changes in fair value	32(e)	(222)	(108)	(330)
– transfer from equity to consolidated income statement	32(e)	(181)	(157)	(338)
Other comprehensive income/(loss)		139	(176)	(37)
Total comprehensive income for the year		2,177	2,013	4,190
Transactions with equity holders				
Purchases of shares of PCCW Limited ("PCCW Shares") under share award scheme		(16)	–	(16)
Purchases of share stapled units of HKT Trust and HKT Limited ("Share Stapled Units") under share award schemes		(10)	(4)	(14)
Employee share-based compensation	35(b)	67	11	78
Vesting of PCCW Shares and Share Stapled Units under share award schemes		(7)	7	–
Distribution for Share Stapled Units granted under share award schemes		(3)	1	(2)
Dividend paid in respect of previous year	14, 36	(1,557)	–	(1,557)
Dividend declared and paid in respect of the current year	14, 36	(662)	–	(662)
Distribution/Dividend declared and paid to non-controlling shareholders of subsidiaries		–	(2,321)	(2,321)
Total contributions by and distributions to equity holders		(2,188)	(2,306)	(4,494)
Changes in ownership interests in subsidiaries that do not result in a loss of control	48	7,814	547	8,361
Total transactions with equity holders		5,626	(1,759)	3,867
At December 31, 2017		19,190	2,702	21,892

See note 4 for details regarding the restatement as a result of changes in accounting policies.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*

For the year ended December 31, 2018

In HK$ million	Note(s)	2018 Attributable to equity holders of the Company	Non-controlling interests	Total equity
At December 31, 2017 as originally presented		**19,941**	**3,264**	**23,205**
Changes in accounting policies	4	**(751)**	**(562)**	**(1,313)**
At December 31, 2017 (restated#) and January 1, 2018		**19,190**	**2,702**	**21,892**
Total comprehensive income for the year				
Profit for the year		**897**	**2,153**	**3,050**
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to consolidated income statement:				
Remeasurements of defined benefit retirement schemes obligations	34(a)	**(30)**	**–**	**(30)**
Changes in fair value of equity instruments at fair value through other comprehensive income	27	**(81)**	**–**	**(81)**
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
– exchange differences on translating foreign operations		**(299)**	**(58)**	**(357)**
Cash flow hedges:				
– effective portion of changes in fair value	32(e)	**(106)**	**(67)**	**(173)**
– transfer from equity to consolidated income statement	32(e)	**17**	**17**	**34**
Costs of hedging	32(e)	**27**	**19**	**46**
Other comprehensive loss		**(472)**	**(89)**	**(561)**
Total comprehensive income for the year		**425**	**2,064**	**2,489**
Transactions with equity holders				
Purchases of PCCW Shares under share award scheme		**(26)**	**–**	**(26)**
Purchases of Share Stapled Units under share award schemes		**(20)**	**(10)**	**(30)**
Employee share-based compensation	35(b)	**83**	**13**	**96**
Vesting of PCCW Shares and Share Stapled Units under share award schemes		**(9)**	**9**	**–**
Distribution for Share Stapled Units granted under share award schemes		**(2)**	**(1)**	**(3)**
Dividend paid in respect of previous year	14, 36	**(1,635)**	**–**	**(1,635)**
Dividend declared and paid in respect of the current year	14, 36	**(688)**	**–**	**(688)**
Distribution/Dividend declared and paid to non-controlling shareholders of subsidiaries		**–**	**(2,416)**	**(2,416)**
Total contributions by and distributions to equity holders		**(2,297)**	**(2,405)**	**(4,702)**
Acquisition of subsidiaries		**(223)**	**151**	**(72)**
Contribution from a non-controlling shareholder of a subsidiary		**–**	**2**	**2**
Total changes in ownership interests in subsidiaries that do not result in a loss of control		**(223)**	**153**	**(70)**
Total transactions with equity holders		**(2,520)**	**(2,252)**	**(4,772)**
At December 31, 2018		**17,095**	**2,514**	**19,609**

See note 4 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 102 to 222 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at December 31, 2018

In HK$ million	Note*	The Group As at January 1, 2017 (Restated#)	December 31, 2017 (Restated#)	**December 31, 2018**	(Additional information) The Company As at December 31, 2017	**December 31, 2018**
ASSETS AND LIABILITIES						
Non-current assets						
Property, plant and equipment	16	19,701	21,681	**23,900**	–	**–**
Right-of-use assets	17	3,705	3,237	**4,175**	–	**–**
Investment properties	18	3,216	3,744	**3,517**	–	**–**
Interests in leasehold land	19	422	404	**385**	–	**–**
Properties held for/under development	20	924	1,188	**3,164**	–	**–**
Goodwill	21	18,095	18,128	**18,192**	–	**–**
Intangible assets	22	9,190	9,603	**10,996**	–	**–**
Fulfillment costs		1,378	1,378	**1,369**	–	**–**
Customer acquisition costs		864	797	**807**	–	**–**
Contract assets		360	353	**302**	–	**–**
Interests in subsidiaries		–	–	**–**	17,792	**18,808**
Interests in associates	24	725	719	**778**	–	**–**
Interests in joint ventures	25	628	592	**530**	–	**–**
Available-for-sale financial assets	26	1,057	2,021	**–**	–	**–**
Financial assets at fair value through other comprehensive income	27	–	–	**1,102**	–	**–**
Financial assets at fair value through profit or loss	28	–	–	**731**	–	**–**
Derivative financial instruments	32	289	225	**152**	2	**4**
Deferred income tax assets	37	1,134	1,215	**1,194**	–	**–**
Other non-current assets		891	1,013	**1,243**	–	**–**
Restricted cash	29(b)	–	–	**217**	–	**–**
		62,579	66,298	**72,754**	17,794	**18,812**
Current assets						
Amounts due from subsidiaries		–	–	**–**	12,746	**13,796**
Sales proceeds held in stakeholders' accounts	29(a)	510	508	**507**	–	**–**
Properties under development	20	–	–	**770**	–	**–**
Inventories	29(d)	943	911	**1,280**	–	**–**
Prepayments, deposits and other current assets	29(c)	4,436	4,452	**3,748**	16	**16**
Contract assets		3,064	3,090	**2,690**	–	**–**
Trade receivables, net	29(e)	3,778	3,664	**4,799**	–	**–**
Amounts due from related companies	6(c)	98	86	**110**	–	**–**
Derivative financial instruments	32	–	1	**4**	1	**4**
Other financial assets	29(i)	–	79	**–**	–	**–**
Tax recoverable		16	19	**18**	–	**–**
Restricted cash	29(b)	139	149	**186**	–	**–**
Short-term deposits		453	1,629	**604**	160	**–**
Cash and cash equivalents	40(c)	4,751	11,638	**6,757**	4,364	**2,729**
		18,188	26,226	**21,473**	17,287	**16,545**
Assets of disposal group classified as held for sale		807	–	**–**	–	**–**
		18,995	26,226	**21,473**	17,287	**16,545**

In HK$ million	Note*	The Group As at January 1, 2017 (Restated#)	The Group As at December 31, 2017 (Restated#)	The Group As at **December 31, 2018**	(Additional information) The Company As at December 31, 2017	(Additional information) The Company As at **December 31, 2018**
Current liabilities						
Short-term borrowings	29(f)	(457)	(622)	**(608)**	–	**–**
Trade payables	29(g)	(2,731)	(2,088)	**(1,952)**	–	**–**
Accruals and other payables		(6,794)	(7,515)	**(6,681)**	(10)	**(11)**
Amount payable to the Government under the Cyberport Project Agreement	31	(321)	(321)	**(322)**	–	**–**
Derivative financial instruments	32	–	(15)	**–**	–	**–**
Carrier licence fee liabilities	38	(173)	(173)	**(173)**	–	**–**
Amounts due to related companies	6(c)	(35)	(1)	**(1)**	–	**–**
Advances from customers		(301)	(253)	**(355)**	–	**–**
Contract liabilities		(1,409)	(1,538)	**(1,856)**	–	**–**
Lease liabilities		(1,729)	(1,446)	**(1,608)**	–	**–**
Current income tax liabilities		(1,115)	(1,155)	**(1,036)**	–	**–**
		(15,065)	(15,127)	**(14,592)**	(10)	**(11)**
Liabilities of disposal group classified as held for sale		(36)	–	**–**	–	**–**
		(15,101)	(15,127)	**(14,592)**	(10)	**(11)**
Non-current liabilities						
Long-term borrowings	30	(45,131)	(46,613)	**(49,307)**	–	**–**
Amounts due to subsidiaries		–	–	**–**	(3,100)	**(3,206)**
Derivative financial instruments	32	(98)	(282)	**(263)**	(104)	**(82)**
Deferred income tax liabilities	37	(2,891)	(3,208)	**(3,674)**	–	**–**
Defined benefit retirement schemes liability	34(a)	(154)	(105)	**(135)**	–	**–**
Carrier licence fee liabilities	38	(544)	(455)	**(357)**	–	**–**
Contract liabilities		(851)	(1,026)	**(1,010)**	–	**–**
Lease liabilities		(2,159)	(2,005)	**(2,871)**	–	**–**
Other long-term liabilities	39	(810)	(1,811)	**(2,409)**	–	**–**
		(52,638)	(55,505)	**(60,026)**	(3,204)	**(3,288)**
Net assets		13,835	21,892	**19,609**	31,867	**32,058**

In HK$ million	Note*	The Group As at January 1, 2017 (Restated#)	The Group As at December 31, 2017 (Restated#)	The Group As at **December 31, 2018**	(Additional information) The Company As at December 31, 2017	(Additional information) The Company As at **December 31, 2018**
CAPITAL AND RESERVES						
Share capital	33	12,954	12,954	**12,954**	12,954	**12,954**
Reserves	36	(1,567)	6,236	**4,141**	18,913	**19,104**
Equity attributable to equity holders of the Company		11,387	19,190	**17,095**	31,867	**32,058**
Non-controlling interests		2,448	2,702	**2,514**	–	**–**
Total equity		13,835	21,892	**19,609**	31,867	**32,058**

The consolidated financial statements were approved and authorized for issue by the board of directors of the Company (the "Board") on February 25, 2019 and signed on behalf of the Board by

Srinivas Bangalore Gangaiah
Director

Hui Hon Hing, Susanna
Director

* The notes referenced above pertain solely to the consolidated statement of financial position. The above Company statement of financial position as at December 31, 2017 and 2018 is presented only as additional information to these consolidated financial statements. The Company statement of financial position as at December 31, 2018 as presented in note 5 was approved and signed by the directors.

See note 4 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 102 to 222 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

In HK$ million	Note(s)	2017 (Restated#)	**2018**
NET CASH GENERATED FROM OPERATING ACTIVITIES	40(a)	10,316	**6,545**
INVESTING ACTIVITIES			
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries		2,388	**377**
Purchases of property, plant and equipment		(3,357)	**(3,834)**
Proceeds from disposals of property, plant and equipment		4	**3**
Payment for investment properties		(431)	**(176)**
Additions of intangible assets		(2,550)	**(3,582)**
Settlement of considerations in respect of business combinations in prior years		(21)	**(27)**
Investment in a joint venture		–	**(30)**
Net outflow of cash and cash equivalents in respect of business combinations		–	**(46)**
Loans to associates		(19)	**(12)**
Loans to joint ventures		(130)	**(72)**
Repayment of loan from a joint venture		39	**15**
Purchases of financial assets at fair value through profit or loss		–	**(79)**
Purchases of available-for-sale financial assets		(975)	**–**
Proceeds from disposal of financial assets at fair value through profit or loss		–	**597**
Proceeds from disposal of available-for-sale financial assets		164	**–**
Purchases of other financial assets		(78)	**–**
Purchase of a foreign currency option		(8)	**(4)**
Dividends received from an associate		6	**7**
Dividends received from available-for-sale financial assets		38	**–**
Dividends received from financial assets at fair value through other comprehensive income		–	**44**
Dividends received from financial assets at fair value through profit or loss		–	**1**
(Increase)/decrease in short-term deposits with maturity more than three months		(1,176)	**1,025**
NET CASH USED IN INVESTING ACTIVITIES		(6,106)	**(5,793)**

In HK$ million	Note(s)	2017 (Restated#)	2018
FINANCING ACTIVITIES			
New borrowings raised, net	40(b)	10,312	**15,210**
Finance costs paid	40(b)	(1,163)	**(1,299)**
Repayments of borrowings	40(b)	(9,158)	**(12,543)**
Payment for lease liabilities (including interest)	40(b)	(1,978)	**(2,013)**
Proceeds from issuance of preference shares of a subsidiary	39(a), 40(b)	859	**–**
Proceeds from placing of Share Stapled Units, net		8,361	**–**
Dividends paid to shareholders of the Company		(2,214)	**(2,320)**
Distribution/Dividends paid to non-controlling shareholders of subsidiaries		(2,320)	**(2,416)**
Contribution from a non-controlling shareholder of a subsidiary		–	**2**
Increase in restricted cash		–	**(221)**
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		2,699	**(5,600)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		6,909	**(4,848)**
Exchange differences		(28)	**(33)**
CASH AND CASH EQUIVALENTS			
Beginning of year		4,751	**11,638**
		11,632	**6,757**
Add: Cash and cash equivalents of disposal group classified as held for sale at beginning of the year		6	**–**
End of year	40(c)	11,638	**6,757**

See note 4 for details regarding the restatement as a result of changes in accounting policies.

The notes on pages 102 to 222 form part of these consolidated financial statements.

1 GENERAL INFORMATION

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation of the financial statements

The following 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 4.

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

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

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

The Group has early adopted HKFRS 16 *Leases* that is mandatory for the first time for the financial year beginning January 1, 2019 and the impact of the adoption is disclosed in note 4. The Group has 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 49.

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

The consolidated statements of financial position for the years ended December 31, 2017 and 2018 include additional information about the Company statement of financial position. The Company statement of financial position as at December 31, 2018 presented in note 5, which was prepared in accordance with the requirements of Part 1 "Accounting Disclosures" of Schedule 4 to the Hong Kong Companies Ordinance (Cap. 622), was approved and signed by the directors.

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

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

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

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

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

– financial assets at fair value through other comprehensive income (see note 2(o));

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

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

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

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

Judgements made by management in the application of Hong Kong Financial Reporting Standards that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

c. Subsidiaries and non-controlling interests

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

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. A subsequent change to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognized in accordance with 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 Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by Hong Kong Financial Reporting Standards.

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

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

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

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

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

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

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

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

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

d. Associates

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

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

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

d. Associates *(continued)*

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

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

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

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

e. Joint arrangements

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

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

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

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

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

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

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

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

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

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

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

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

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

f. Property, plant and equipment

The following items of property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(p)(ii)):

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

– other items of plant and equipment.

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

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

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

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

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

g. Investment properties

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

Land held under leases is classified and accounted for as an investment property when the rest of the definition of investment property is met.

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

g. Investment properties *(continued)*

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

h. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to 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 Group

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

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

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

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.

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

h. Leased assets *(continued)*

ii. Assets leased out by the Group

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

i. Properties held for/under development

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

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

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

j. Goodwill

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

Goodwill is stated in the consolidated statement of financial position at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested at least annually for impairment (see note 2(p)(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.

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

k. 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 Group has the right to return a licence and expects to do so, the asset and the related obligation recorded reflect the expected period that the licence will be held. Amortization is provided on a straight-line basis over the estimated useful life of the licence, commencing from the date of launch of the relevant telecommunications services.

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

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

ii. Capitalized programme costs

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

iii. Software

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

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

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

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

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

– the Group has power to obtain future economic benefits flowing from the underlying resource.

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

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

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

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

iv. Other intangible assets

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

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

Trademarks	20 years
Customer base	1 to 12 years
Wireless broadband licence	Over the term of licence

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

l. Fulfillment costs

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

m. Customer acquisition costs

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

n. Contract assets/liabilities

In the case of fixed price contracts, the customer pays the fixed amount based on a payment schedule. If the performance obligations fulfilled by the Group exceed the total payments received 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 Group's rights to the contract consideration become unconditional.

o. Investments in debt and equity securities

Classification

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

– those to be measured subsequently at fair value (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 Group's business model for managing the financial assets and the contractual terms of the cash flows.

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

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

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

o. 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 Group commits 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 Group has transferred substantially all the risks and rewards of ownerships.

Initial measurement

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

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

Subsequent measurement

Debt instruments

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

– Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt instrument that is subsequently measured at amortized cost is recognized in 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 Group subsequently measures all equity instruments at fair value. Where the Group's 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 Group's right to receive payments is established.

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

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

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

p. Impairment of assets

i. Investments in debt instruments and trade and other receivables

The Group assesses on forward looking basis the expected credit losses associated with its 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 Group 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 Group 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 borrowers in the Group 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 Group measures 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 Group measures the loss allowance for that financial asset at an amount equal to 12-month expected credit losses.

For trade receivables and contract assets, the Group applies 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 Group considers 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 Group categorizes 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 Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in the consolidated income statement.

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

p. Impairment of assets *(continued)*

ii. Impairment of other assets

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

- property, plant and equipment;
- right-of-use assets;
- interests in leasehold land;
- properties held for/under development;
- 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.

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

p. Impairment of assets *(continued)*

iii. Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Group is required to prepare an interim financial report in compliance with HKAS 34 *Interim Financial Reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(p)(i) and 2(p)(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.

q. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. The gain or loss on remeasurement to fair value is recognized immediately in the consolidated income statement, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(r)).

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.

r. Hedging

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows/fair value of the hedging instruments are expected to offset changes in the cash flows/fair value of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

i. Cash flow hedges

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

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

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

r. Hedging *(continued)*

i. Cash flow hedges *(continued)*

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

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

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

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

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

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

ii. Fair value hedges

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

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

s. 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 Group's telecommunications systems, are stated at cost less provision for deterioration and obsolescence.

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

t. 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 Group holds trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method, less loss allowance for expected credit losses (see note 2(p)(i)).

u. Cash and cash equivalents

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

v. 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.

w. 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.

x. Provisions and contingent liabilities

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

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

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

y. Revenue recognition

The Group's revenues are primarily earned from the following business units (i) Telecommunications, (ii) Media, (iii) Solutions and (iv) Properties.

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 Group's 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 Group often enters into bundled sale contracts with customers in which, apart from provision of telecommunications, media, solutions and other services, the Group has 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 Group's 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.

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 Group.

i. Telecommunications

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.

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 Group satisfies 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.

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.

Other telecommunications services income are recognized when services are rendered.

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

y. Revenue recognition *(continued)*

ii. Media

Media services comprise interactive pay-TV services, domestic free television service in Hong Kong and OTT digital media entertainment service.

Subscription income from the interactive pay-TV services and OTT digital media entertainment service are recognized ratably over the contract period which generally coincides with when the services are rendered.

Advertising income from interactive pay-TV services, domestic free television service in Hong Kong and OTT digital media entertainment service are recognized (i) when the advertisements are telecast on pay-TV and free TV, delivered through internet and mobile platforms; or (ii) ratably over the contractual display period of the contract when the advertisements are placed on the Group's website and mobile platforms.

iii. Solutions

Solutions services comprise of the provision of Information and Communications Technologies services and solutions to customers.

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

iv. Properties

Rental income receivable under operating leases is recognized in the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

v. Commission income

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

z. Interest income

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

aa. Dividend income

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

ab. Borrowing costs

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

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

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

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

ac. Income tax

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

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

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

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

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

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

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

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

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

    - the same taxable entity; or

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

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

ad. Employee benefits

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

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

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

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

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

iii. Share-based payments

The Company operates a share option scheme where employees (and including directors) are granted options to acquire PCCW Shares at specified exercise prices. The fair value of the employee services received in exchange for the grant of options is recognized as staff costs in the consolidated income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of share options that vests (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognized in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share capital account) or the share options expire (when it is released directly to retained profits or accumulated losses). When the share options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

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

ad. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

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

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

The cost of Share Stapled Units purchased from the open market under the Purchase Scheme and the issue price of newly issued Share Stapled Units under the Subscription Scheme is recognized in equity and non-controlling interests. The fair value of the employee services received in exchange for the grant of Share Stapled Units under both schemes is recognized as staff costs in the consolidated income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the awarded Share Stapled Units is measured by the quoted market price of the Share Stapled Units at grant date and is charged to the consolidated income statement over the respective vesting period. During the vesting period, the number of awarded Share Stapled Units that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded Share Stapled Units that vests (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded Share Stapled Units recognized in equity is transferred to the employee share-based compensation reserve with the difference recognized in equity and non-controlling interests.

iv. Termination benefits

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

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

ae. Share-based payment transactions with cash alternatives

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

af. Translation of foreign currencies

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

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

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 acquired on or after January 1, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. Goodwill arising on consolidation of a foreign operation acquired before January 1, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the currency translation reserve under equity.

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

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

ag. Related parties

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

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

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

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

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

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

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

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

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

ah. Segment reporting

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

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

ai. Dividend distribution

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 21, 34(a) and 42 contain information about the assumptions and their risk factors relating to goodwill impairment, defined benefit retirement schemes liability and financial instruments. Management has also made judgements in applying the Group's accounting policies. These judgements and other key sources of estimation uncertainty are discussed below:

i. Impairment of assets (other than investments in debt instruments and trade and other receivables)

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

- property, plant and equipment;
- right-of-use assets;
- interests in leasehold land;
- properties held for/under development;
- 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 Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period. Such information is particularly significant as it relates to the Group's telecommunications services and infrastructure businesses in Hong Kong.

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

ii. Revenue recognition

Under certain arrangements, apart from provision of telecommunications, media, solutions and other services, the Group has certain other performance obligations to customers such as delivery of handsets, equipment and gifts. When such multiple-element arrangements exist, the total transaction price receivable from customers is allocated among the Group's performance obligations on a relative 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 Group is 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 Group is 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 Group considers future taxable income and ongoing prudent and appropriate tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

iv. Current income tax

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

v. Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers on a market value basis and (ii) other principal assumptions, including the current and expected capitalization rate, market price and market rent in view of the current usage and condition of the investment properties to determine the fair value of the investment properties. Had the Group used different capitalization rate, market prices, market rents or other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2018, the fair value of the investment properties was HK$3,517 million (2017: HK$3,744 million).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

vi. Lives of property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs

The Group has significant property, plant and equipment, intangible assets (other than goodwill), fulfillment costs and customer acquisition costs. The Group is 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 Group's strategies and expected life of customer contracts. The Group performs 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 Group extends or shortens the lives according to the results of the reviews.

vii. 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 Group is required to exercise considerable judgement in relation to determining 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.

viii. Value of unlisted securities

The fair value of financial instruments that are not traded in active market is individually determined at the end of each reporting period by management based on market value assessment taking into consideration of portfolio statements, if any. Fair value is determined using various valuation techniques such as discounted cash flow analysis. Note 42(e) contains details of key assumptions used.

4 CHANGES IN ACCOUNTING POLICIES AND DISCONTINUED OPERATIONS

This note explains the impact of the adoption of HKFRS 9 (2014) *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers*, the early adoption of HKFRS 16 *Leases* and the reclassification of discontinued operations (note 29(h)) on the Group's financial statements.

a. Impacts on the financial statements

As a result of the changes in the Group's accounting policies and the reclassification of discontinued operations (note 29(h)), prior year financial statements had to be restated as follows:

In HK$ million (except for earnings per share)

Consolidated income statement for the year ended December 31, 2017 (extract)	As originally presented	Reclassification of discontinued operations *(note 29(h))*	HKFRS 15 *(note 4(b))*	HKFRS 16 *(note 4(c))*	Restated
Revenue	37,050	(30)	(188)	–	36,832
Cost of sales	(16,857)	16	(2,032)	529	(18,344)
General and administrative expenses	(14,322)	107	1,790	(434)	(12,859)
Other gains/(losses), net	1,201	(1,236)	–	–	(35)
Interest income	134	–	–	(1)	133
Finance costs	(1,526)	–	–	(110)	(1,636)
Profit before income tax from continuing operations*	5,734	(1,143)	(430)	(16)	4,145
Income tax	(1,134)	–	71	2	(1,061)
Profit for the year from continuing operations	4,600	(1,143)	(359)	(14)	3,084
Profit for the year from discontinued operations	–	1,143	–	–	1,143
Profit for the year	4,600	–	(359)	(14)	4,227
Earnings per share					
Basic earnings per share arising from:					
Continuing operations (cents)	29.15	(14.83)	(2.47)	(0.23)	11.62
Discontinued operations (cents)	–	14.83	–	–	14.83
	29.15	–	(2.47)	(0.23)	26.45
Diluted earnings per share arising from:					
Continuing operations (cents)	29.12	(14.82)	(2.47)	(0.23)	11.60
Discontinued operations (cents)	–	14.82	–	–	14.82
	29.12	–	(2.47)	(0.23)	26.42

* 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.

4 CHANGES IN ACCOUNTING POLICIES AND DISCONTINUED OPERATIONS *(CONTINUED)*

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

In HK$ million Consolidated statement of comprehensive income for the year ended December 31, 2017 (extract)	As originally presented	HKFRS 15 *(note 4(b))*	HKFRS 16 *(note 4(c))*	Restated
Profit for the year	4,600	(359)	(14)	4,227
Exchange differences on translating foreign operations	323	–	1	324
Total comprehensive income for the year*	4,562	(359)	(13)	4,190
Attributable to:				
Equity holders of the Company	2,384	(190)	(17)	2,177
Non-controlling interests	2,178	(169)	4	2,013
Total comprehensive income for the year	4,562	(359)	(13)	4,190

In HK$ million Consolidated statement of financial position (extract)	As at December 31, 2016 As originally presented	HKFRS 15 *(note 4(b))*	HKFRS 16 *(note 4(c))*	As at January 1, 2017 Restated
ASSETS AND LIABILITIES				
Non-current assets				
Right-of-use assets	–	–	3,705	3,705
Intangible assets	11,982	(2,792)	–	9,190
Fulfillment costs	–	1,378	–	1,378
Customer acquisition costs	–	864	–	864
Contract assets	–	360	–	360
Other non-current assets	897	–	(6)	891
Current assets				
Prepayments, deposits and other current assets	9,019	(4,467)	(116)	4,436
Contract assets	–	3,064	–	3,064
Current liabilities				
Accruals and other payables	(6,844)	–	50	(6,794)
Advances from customers	(2,160)	1,859	–	(301)
Contract liabilities	–	(1,409)	–	(1,409)
Lease liabilities	–	–	(1,729)	(1,729)
Current income tax liabilities	(1,327)	200	12	(1,115)

* 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.

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

In HK$ million

Consolidated statement of financial position (extract) *(continued)*	As at December 31, 2016 As originally presented	HKFRS 15 *(note 4(b))*	HKFRS 16 *(note 4(c))*	As at January 1, 2017 Restated
Non-current liabilities				
Deferred income tax liabilities	(2,916)	–	25	(2,891)
Deferred income	(1,071)	1,071	–	–
Contract liabilities	–	(851)	–	(851)
Lease liabilities	–	–	(2,159)	(2,159)
Net assets*	14,776	(723)	(218)	13,835
CAPITAL AND RESERVES				
Reserves	(928)	(452)	(187)	(1,567)
Equity attributable to equity holders of the Company*	12,026	(452)	(187)	11,387
Non-controlling interests	2,750	(271)	(31)	2,448
Total equity*	14,776	(723)	(218)	13,835

In HK$ million

Consolidated statement of financial position (extract)	As at December 31, 2017 As originally presented	HKFRS 15 *(note 4(b))*	HKFRS 16 *(note 4(c))*	As at December 31, 2017 Restated	HKFRS 9 (2014) *(note 4(d))*	As at January 1, 2018 Restated
ASSETS AND LIABILITIES						
Non-current assets						
Right-of-use assets	–	–	3,237	3,237	–	3,237
Intangible assets	12,726	(3,123)	–	9,603	–	9,603
Fulfillment costs	–	1,378	–	1,378	–	1,378
Customer acquisition costs	–	797	–	797	–	797
Contract assets	–	353	–	353	–	353
Available-for-sale (“AFS”) financial assets	2,021	–	–	2,021	(2,021)	–
Financial assets at FVOCI	–	–	–	–	1,183	1,183
Financial assets at FVPL	–	–	–	–	838	838
Deferred income tax assets	1,213	–	2	1,215	–	1,215
Other non-current assets	1,019	–	(6)	1,013	–	1,013

* 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.

4 CHANGES IN ACCOUNTING POLICIES AND DISCONTINUED OPERATIONS *(CONTINUED)*

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

In HK$ million

Consolidated statement of financial position (extract) *(continued)*	As at December 31, 2017 As originally presented	HKFRS 15 *(note 4(b))*	HKFRS 16 *(note 4(c))*	As at December 31, 2017 Restated	HKFRS 9 (2014) *(note 4(d))*	As at January 1, 2018 Restated
Current assets						
Prepayments, deposits and other current assets	9,556	(5,000)	(104)	4,452	–	4,452
Contract assets	–	3,090	–	3,090	–	3,090
Other financial assets	79	–	–	79	(79)	–
Financial assets at FVPL	–	–	–	–	79	79
Current liabilities						
Accruals and other payables	(7,569)	–	54	(7,515)	–	(7,515)
Advances from customers	(2,588)	2,335	–	(253)	–	(253)
Contract liabilities	–	(1,538)	–	(1,538)	–	(1,538)
Lease liabilities	–	–	(1,446)	(1,446)	–	(1,446)
Current income tax liabilities	(1,438)	271	12	(1,155)	–	(1,155)
Non-current liabilities						
Deferred income tax liabilities	(3,233)	–	25	(3,208)	–	(3,208)
Deferred income	(1,381)	1,381	–	–	–	–
Contract liabilities	–	(1,026)	–	(1,026)	–	(1,026)
Lease liabilities	–	–	(2,005)	(2,005)	–	(2,005)
Net assets*	23,205	(1,082)	(231)	21,892	–	21,892
CAPITAL AND RESERVES						
Reserves	6,987	(555)	(196)	6,236	–	6,236
Equity attributable to equity holders of the Company*	19,941	(555)	(196)	19,190	–	19,190
Non-controlling interests	3,264	(527)	(35)	2,702	–	2,702
Total equity*	23,205	(1,082)	(231)	21,892	–	21,892

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

4 CHANGES IN ACCOUNTING POLICIES AND DISCONTINUED OPERATIONS *(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 4(b))*	HKFRS 16 *(note 4(c))*	Restated
Net cash generated from operating activities	11,863	(3,525)	1,978	10,316
Net cash used in investing activities	(9,631)	3,525	–	(6,106)
Net cash generated from financing activities	4,677	–	(1,978)	2,699
Net increase in cash and cash equivalents	6,909	–	–	6,909

b. HKFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

4 CHANGES IN ACCOUNTING POLICIES AND DISCONTINUED OPERATIONS *(CONTINUED)*

b. HKFRS 15 *Revenue from Contracts with Customers* (continued)

As a result of the above changes, certain items in the consolidated income statement as highlighted in note 4(a) above are restated, resulting in a decrease in retained profits attributable to equity holders of the Company as at December 31, 2016 and profit attributable to equity holders of the Company for the year ended December 31, 2017 of HK$452 million and HK$190 million respectively. The Group's EBITDA as defined and disclosed in the segment information is also restated and decreased by HK$2,220 million for the year ended December 31, 2017.

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

c. HKFRS 16 *Leases*

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

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

On adoption of HKFRS 16, the Group recognized the full lease liabilities in relation to leases which had previously been classified as operating leases if they meet certain criteria set out in HKFRS 16. These liabilities were 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 a lessee, the Group should allocate the consideration in the contract to each lease component on the basis of their relative stand-alone price. The Group, as a lessee, assessed its leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by certain items as set out in note 2(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 Group has 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 4(a) above are restated, resulting in a decrease in retained profits attributable to equity holders of the Company as at December 31, 2016 and profit attributable to equity holders of the Company for the year ended December 31, 2017 of HK$187 million and HK$18 million respectively. The Group's EBITDA as defined and disclosed in the segment information is also restated and increased by HK$1,994 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$1,978 million were required to be reclassified from operating activities to financing activities according to HKFRS 16 in the restated consolidated statement of cash flows. The Group's total net cash flow is unaffected.

4 CHANGES IN ACCOUNTING POLICIES AND DISCONTINUED OPERATIONS *(CONTINUED)*

d. HKFRS 9 (2014) *Financial Instruments*

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

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

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

Accordingly, AFS financial assets were reclassified on January 1, 2018. Certain financial assets with carrying amount of HK$1,183 million and HK$917 million were reclassified to financial assets at FVOCI and financial assets at FVPL respectively according to the Group's business model, and the nature and contractual cash flow characteristics of the financial instruments. Corresponding accumulated fair value gains of HK$163 million and HK$212 million were transferred from AFS financial assets reserve to financial assets at FVOCI reserve and retained profits respectively on January 1, 2018. Such reclassification has no impact on the measurement of these financial assets.

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

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

5 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

In HK$ million	Note	2017	**2018**
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		17,792	**18,808**
Derivative financial instruments		2	**4**
		17,794	**18,812**
Current assets			
Amounts due from subsidiaries		12,746	**13,796**
Prepayments, deposits and other current assets		16	**16**
Derivative financial instruments		1	**4**
Short-term deposits		160	**–**
Cash and cash equivalents		4,364	**2,729**
		17,287	**16,545**
Current liabilities			
Accruals and other payables		(10)	**(11)**
		(10)	**(11)**
Non-current liabilities			
Amounts due to subsidiaries		(3,100)	**(3,206)**
Derivative financial instruments		(104)	**(82)**
		(3,204)	**(3,288)**
Net assets		31,867	**32,058**
CAPITAL AND RESERVES			
Share capital		12,954	**12,954**
Reserves	36	18,913	**19,104**
Total equity		31,867	**32,058**

Approved and authorized for issue by the Board on February 25, 2019 and signed on behalf of the Board by

Srinivas Bangalore Gangaiah
Director

Hui Hon Hing, Susanna
Director

6 RELATED PARTY TRANSACTIONS

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

In HK$ million	Note	2017	2018
Telecommunications service fees, consultancy service charges, facility management service charges, interest income and other recharge costs received or receivable from joint ventures	a	46	**49**
System integration service fees, consultancy service charges and interest income received or receivable from associates	a	17	**15**
Telecommunications service fees, system integration service fees and data center hosting service fees received or receivable from a substantial shareholder	a	129	**127**
Telecommunications service fees, equipment purchase costs, outsourcing fees and rental charges paid or payable to joint ventures	a	320	**324**
Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder	a	106	**105**
Telecommunications service fees paid or payable to an associate	a	12	**6**
Telecommunications service fees, connectivity service, equipment sales, insurance premium, rental income and consultancy service charges received or receivable from a related party under common control of a shareholder	a	–	**69**
Insurance premium and fronting service fees paid or payable to a related party under common control of a shareholder	a	–	**19**
Key management compensation	b	114	**100**

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

b. Details of key management compensation

In HK$ million	2017	2018
Salaries and other short-term employee benefits	93*	**69**
Share-based compensation	17	**27**
Post-employment benefits	4	**4**
	114	**100**

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

c. Balances with related companies

Other than as specified in notes 24 and 25, balances with related companies as at December 31, 2017 and 2018, were unsecured, non-interest bearing, and have no fixed repayment terms.

7 SEGMENT INFORMATION

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

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

- HKT Limited ("HKT") is Hong Kong's premier telecommunications service provider. The principal activities of HKT and its subsidiaries are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

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

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

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

7 SEGMENT INFORMATION *(CONTINUED)*

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization ("EBITDA"). EBITDA represents earnings before interest income, finance costs, income tax, depreciation and amortization, gain/loss on disposal of property, plant and equipment, investment properties, 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.

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

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

In HK$ million	2017 (Restated)							
	Reportable segments							
	HKT	Media Business	Solutions Business	PCPD	Eliminations	Total	Other#	Consolidated
REVENUE								
External revenue	31,869	2,156	2,645	162	–	36,832	–	36,832
Inter-segment revenue	1,198	1,467	1,357	2	(4,024)	–	–	–
Total revenue	33,067	3,623	4,002	164	(4,024)	36,832	–	36,832
Revenue from contracts with customers:								
Timing of revenue recognition								
At a point in time	5,636	91	429	–	(312)	5,844	–	5,844
Over time	27,369	3,532	3,573	147	(3,705)	30,916	–	30,916
Revenue from other sources:								
Rental income	62	–	–	17	(7)	72	–	72
	33,067	3,623	4,002	164	(4,024)	36,832	–	36,832
RESULTS								
EBITDA	12,285	(37)	1,079	(236)	(62)	13,029	(593)	12,436
OTHER INFORMATION								
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	2,655	235	223	287	–	3,400	10	3,410

7 SEGMENT INFORMATION *(CONTINUED)*

In HK$ million	2018							
	Reportable segments							
	HKT	Media Business	Solutions Business	PCPD	Eliminations	Total	Other#	Consolidated
REVENUE								
External revenue	33,665	2,471	2,417	297	–	38,850	–	38,850
Inter-segment revenue	1,522	1,497	1,676	3	(4,698)	–	–	–
Total revenue	35,187	3,968	4,093	300	(4,698)	38,850	–	38,850
Revenue from contracts with customers:								
Timing of revenue recognition								
At a point in time	7,422	170	356	–	(139)	7,809	–	7,809
Over time	27,703	3,798	3,737	160	(4,552)	30,846	–	30,846
Revenue from other sources:								
Rental income	62	–	–	140	(7)	195	–	195
	35,187	3,968	4,093	300	(4,698)	38,850	–	38,850
RESULTS								
EBITDA	12,558	(215)	1,080	(165)	(430)	12,828	(593)	12,235
OTHER INFORMATION								
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	2,588	360	142	810	–	3,900	2	3,902

Other primarily comprises corporate support functions.

7 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	2017 (Restated)	**2018**
Total segment EBITDA arising from continuing operations	12,436	**12,235**
Loss on disposal of property, plant and equipment and right-of-use assets, net	(3)	**(6)**
Depreciation and amortization	(6,804)	**(6,991)**
Other (losses)/gains, net	(35)	**643**
Interest income	133	**134**
Finance costs	(1,636)	**(1,899)**
Share of results of associates and joint ventures	54	**68**
Profit before income tax from continuing operations	4,145	**4,184**

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

In HK$ million	2017 (Restated)	**2018**
Hong Kong (place of domicile)	30,660	**32,185**
Mainland China, Macau and Taiwan, China	970	**960**
Others	5,202	**5,705**
	36,832	**38,850**

As at December 31, 2018, the total non-current assets, other than financial instruments and deferred income tax assets, located in Hong Kong are HK$56,983 million (2017 (restated): HK$51,380 million), and the total of these non-current assets located in other countries are HK$12,229 million (2017 (restated): HK$11,320 million).

8 REVENUE

In HK$ million	2017 (Restated)	**2018**
Revenue from contracts with customers	36,760	**38,655**
Revenue from other sources: rental income	72	**195**
	36,832	**38,850**

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	1,409	**1,538**

8 REVENUE *(CONTINUED)*

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*	**24,635**

* 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 51% and 26% 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 23% 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 Group's contracts with customers with duration of one year or less and contracts with customers billed directly according to performance completed to date.

9 OTHER (LOSSES)/GAINS, NET

In HK$ million	2017 (Restated)	2018
Gain on disposal of subsidiaries *(note 46)*	–	**276**
Fair value movement of derivative financial instruments	1	**15**
Net realized gains on disposal of AFS financial assets	68	**–**
Fair value gains on financial assets at FVPL *(note 28)*	–	**300**
Dividend income from AFS financial assets	38	**–**
Dividend income from financial assets at FVOCI	–	**44**
Dividend income from financial assets at FVPL	–	**1**
Provision for impairment of interests in associates	(154)	**–**
Reversal of/(provision for) impairment of interests in joint ventures	5	**(2)**
Others	7	**9**
	(35)	**643**

10 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	2017 (Restated)	2018
Retirement costs for directors	3	**3**
Retirement costs for other staff under defined contribution retirement scheme	401	**392**
Retirement costs for other staff under defined benefit retirement schemes	2	**2**
	406	**397**
Share-based compensation expenses	78	**96**
Salaries, bonuses and other benefits	4,805	**4,280**
	5,289	**4,773**
Less: staff costs included in cost of sales	(2,732)	**(2,318)**
Staff costs included in general and administrative expenses	2,557	**2,455**

b. Other items

In HK$ million	2017 (Restated)	2018
Charging/(crediting):		
Gross rental income	(72)	**(195)**
Less: Outgoings	5	**7**
Impairment loss for trade receivables	288	**251**
Provision for inventory obsolescence	16	**10**
Depreciation of property, plant and equipment	1,619	**1,588**
Depreciation of right-of-use assets – land and buildings	1,620	**1,614**
Depreciation of right-of-use assets – network capacity and equipment	279	**308**
Amortization of land lease premium – interests in leasehold land	18	**18**
Amortization of intangible assets	1,864	**1,996**
Amortization of fulfillment costs	427	**422**
Amortization of customer acquisition costs	977	**1,045**
Cost of inventories sold	6,105	**7,754**
Cost of sales, excluding inventories sold	12,239	**12,888**
Loss on disposal of property, plant and equipment and right-of-use assets, net	3	**6**
Exchange losses/(gains), net	333	**(18)**
Less: Cash flow hedges: transferred from equity	(338)	**34**
Less: Fair value hedges: transferred to finance costs	17	**(5)**
Remuneration to the Company's auditor		
– audit and audit-related services	32	**29**
– non-audit services	3	**9**
Remuneration to the other auditors		
– audit and audit-related services	16	**11**
– non-audit services	4	**3**
Short-term leases expenses	54	**89**
Low-value assets leases expenses	4	**4**
Variable lease payment expenses	1	**2**

11 FINANCE COSTS

In HK$ million	2017 (Restated)	**2018**
Interest expense, excluding interest expense on lease liabilities	1,657	**1,794**
Interest expense on lease liabilities	110	**130**
Notional accretion on carrier licence fee liabilities	51	**44**
Other borrowing costs	42	**40**
Fair value hedges: exchange difference transferred from exchange losses, net	17	**5**
Adjustment of borrowings attributable to foreign currency risk	(17)	**(5)**
Hedge ineffectiveness: cross currency swap contracts and foreign exchange forward contracts – cash flow hedges for foreign currency risk	(48)	**(20)**
Hedge ineffectiveness: interest rate swap contract – cash flow hedge for interest rate risk	(3)	**(2)**
Hedge ineffectiveness: cross currency swap contracts – fair value hedges for interest rate risk and foreign currency risk	(1)	**(2)**
Impact of re-designation of fair value hedges	16	**16**
	1,824	**2,000**
Interest capitalized in property, plant and equipment and investment properties *(note a)*	(188)	**(101)**
	1,636	**1,899**

a. The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.05% to 4.61% for the year ended December 31, 2018 (2017: 3.07% to 5.30%).

12 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

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

In HK$ million	2017															
	Directors' fees		Salaries		Allowances		Benefits in kind[1]		Bonuses[2]		Retirement schemes contributions		Share-based compensation[3]		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD and one-off payment[4])	PCPD
Executive directors																
Li Tzar Kai, Richard	–	–	–	–	–	–	0.03	–	–	–	–	–	–	–	0.03	–
Srinivas Bangalore Gangaiah	–	–	10.64	–	1.66	–	0.09	–	3.86	–	1.10	–	1.88	–	19.23	–
Hui Hon Hing, Susanna	–	–	7.64	–	3.81	–	0.03	–	9.70	–	0.92	–	12.28	–	34.38[4]	–
Lee Chi Hong, Robert	–	–	–	7.21	–	3.09	–	0.10	–	–	–	1.08	–	–	–	11.48
Non-executive directors																
Sir David Ford[5]	–	–	0.63	–	0.08	–	3.88	–	–	–	–	–	–	–	4.59	–
Lu Yimin	0.47[6]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.47	–
Li Fushen	0.47[7]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.47	–
Zhang Junan[8]	0.04[9]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.04	–
Tse Sze Wing, Edmund	0.24	–	–	–	–	–	–	–	–	–	–	–	–	–	0.24	–
Wei Zhe, David	0.24	–	–	–	–	–	–	–	–	–	–	–	–	–	0.24	–
Shao Guanglu[10]	0.19[11]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.19	–
Independent non-executive directors																
Dr The Hon Sir David Li Kwok Po	0.24	–	–	–	–	–	–	–	–	–	–	–	–	–	0.24	–
Aman Mehta	0.95[12]	–	–	–	0.53	–	–	–	–	–	–	–	–	–	1.48	–
Frances Waikwun Wong	0.59[13]	–	–	–	–	–	–	–	–	–	–	–	–	–	0.59	–
Bryce Wayne Lee	0.24	–	–	–	0.40	–	–	–	–	–	–	–	–	–	0.64	–
Lars Eric Nils Rodert	0.24	–	–	–	0.53	–	–	–	–	–	–	–	–	–	0.77	–
David Christopher Chance	0.36[14]	–	–	–	0.53	–	–	–	–	–	–	–	–	–	0.89	–
David Lawrence Herzog[15]	0.05	–	–	–	0.13	–	–	–	–	–	–	–	–	–	0.18	–
	4.32	–	18.91	7.21	7.67	3.09	4.03	0.10	13.56	–	2.02	1.08	14.16	–	64.67	11.48

Notes:

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

2 Bonus amounts shown above represent the 2016 bonus that were paid in 2017. It was determined by reference to the Group and the individual performance during the year ended December 31, 2016.

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 Apart from the above emolument representing the aggregate amount receivable from both the Company and HKT for acting as the group chief financial officer of both entities, Ms Hui Hon Hing, Susanna has also realized a one-off payment of HK$20 million from a long-term incentive plan in 2017. Including this one-off payment, her aggregate emolument was HK$54 million for 2017.

5 Ceased to be a non-executive director with effect from September 9, 2017.

6 Fees receivable as a non-executive director of both the Company and HKT in 2017 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

7 Fees receivable as a non-executive director of both the Company and HKT in 2017 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

8 Resigned as a non-executive director with effect from March 10, 2017.

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

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

Notes: *(continued)*

9 Fee receivable as a non-executive director in 2017 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zhang Junan and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

10 Appointed as a non-executive director with effect from the conclusion of the annual general meeting held on March 17, 2017.

11 Fee receivable as a non-executive director in 2017 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Shao Guanglu and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

12 Includes HK$118,450 fee as Chairman of Nomination Committee, HK$118,450 fee as Chairman of Audit Committee and HK$118,450 fee as Chairman of Remuneration Committee of the Company as well as fees of HK$236,900 and HK$118,450 for acting as an independent non-executive director of HKT and Chairman of its Nomination Committee respectively.

13 Includes fees of HK$236,900 and HK$118,450 for acting as an independent non-executive director of HKT and Chairperson of its Remuneration Committee respectively.

14 Includes HK$118,450 fee as independent non-executive Chairman of PCCW Media Limited, a wholly-owned subsidiary of the Company.

15 Appointed as an independent non-executive director with effect from October 9, 2017.

16 The share-based compensation vested to Mr Chan Ching Cheong, George, a past executive director who retired with effect from the end of July 13, 2014, during the year ended December 31, 2017 under the Company's share award scheme in respect of his services as a past director of the Company and its subsidiaries is HK$4 million (2016: HK$2 million).

In HK$ million	2018															
	Directors' fees		Salaries		Allowances		Benefits in kind[1]		Bonuses[2]		Retirement schemes contributions		Share-based compensation[3]		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD
Executive directors																
Li Tzar Kai, Richard	-	-	-	-	-	-	0.04	-	-	-	-	-	-	-	0.04	-
Srinivas Bangalore Gangaiah	-	-	10.93	-	1.72	-	0.11	-	5.02	-	1.13	-	9.17	-	28.08	-
Hui Hon Hing, Susanna	-	-	7.84	-	3.91	-	0.03	-	7.69	-	0.94	-	9.52	-	29.93[4]	-
Lee Chi Hong, Robert	-	-	-	7.68	-	3.29	-	0.10	-	-	-	1.15	-	-	-	12.22
Non-executive directors																
Lu Yimin[5]	0.34[6]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.34	-
Li Fushen	0.47[7]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.47	-
Shao Guanglu	0.24[8]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.24	-
Tse Sze Wing, Edmund	0.24	-	-	-	-	-	-	-	-	-	-	-	-	-	0.24	-
Wei Zhe, David	0.24	-	-	-	-	-	-	-	-	-	-	-	-	-	0.24	-
Zhu Kebing[9]	0.14[10]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.14	-
Independent non-executive directors																
Dr The Hon Sir David Li Kwok Po[11]	0.24	-	-	-	-	-	-	-	-	-	-	-	-	-	0.24	-
Aman Mehta	0.95[12]	-	-	-	0.53	-	-	-	-	-	-	-	-	-	1.48	-
Frances Waikwun Wong	0.59[13]	-	-	-	-	-	-	-	-	-	-	-	-	-	0.59	-
Bryce Wayne Lee	0.24	-	-	-	0.53	-	-	-	-	-	-	-	-	-	0.77	-
Lars Eric Nils Rodert	0.24	-	-	-	0.40	-	-	-	-	-	-	-	-	-	0.64	-
David Christopher Chance	0.36[14]	-	-	-	0.53	-	-	-	-	-	-	-	-	-	0.89	-
David Lawrence Herzog	0.24	-	-	-	0.53	-	-	-	-	-	-	-	-	-	0.77	-
	4.53	-	18.77	7.68	8.15	3.29	0.18	0.10	12.71	-	2.07	1.15	18.69	-	65.10	12.22

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

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

Notes:

1 Benefits in kind include medical insurance premium and club membership fees where applicable.
2 Bonus amounts shown above represent the 2017 bonus that were paid in 2018. It was determined by reference to the Group 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 in 2018 for respective directors under the share award schemes.
4 Represents the total emoluments receivable from both the Company and HKT for acting as the group chief financial officer and the group managing director respectively.
5 Resigned as a non-executive director with effect from September 18, 2018.
6 Fees receivable as a non-executive director of both the Company and HKT in 2018 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
7 Fees receivable as a non-executive director of both the Company and HKT in 2018 were surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
8 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 Shao Guanglu and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
9 Appointed as a non-executive director with effect from September 18, 2018.
10 Fees receivable as a non-executive director of both the Company and HKT in 2018 were 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, a substantial shareholder of the Company.
11 Resigned as an independent non-executive director with effect from December 31, 2018.
12 Includes HK$118,450 fee as Chairman of Nomination Committee, HK$118,450 fee as Chairman of Audit Committee and HK$118,450 fee as Chairman of Remuneration Committee of the Company as well as fees of HK$236,900 and HK$118,450 for acting as an independent non-executive director of HKT and Chairman of its Nomination Committee respectively.
13 Includes fees of HK$236,900 and HK$118,450 for acting as an independent non-executive director of HKT and Chairperson of its Remuneration Committee respectively.
14 Includes HK$118,450 fee as independent non-executive Chairman of PCCW Media Limited, a wholly-owned subsidiary of the Company.

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

No retirement benefits were paid to or receivable by any director during the year ended December 31, 2018 by a defined contribution retirement scheme operated by the Group in respect of services 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

No directors' emoluments, retirements benefits, payments or benefits in respect of the termination of directors' services were paid to or receivable by the directors during the year ended December 31, 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 Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the year ended December 31, 2018 (2017: nil).

12 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 whose emoluments are disclosed in note 12(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, share-based compensation, allowances and benefits in kind	46	**76**
Bonuses	126	**37**
Retirement scheme contributions	2	**2**
	174	**115**

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$19,500,001 – HK$20,000,000	–	**1**
HK$22,500,001 – HK$23,000,000	1	**–**
HK$25,000,001 – HK$25,500,000	–	**1**
HK$70,000,001 – HK$70,500,000	–	**1**
HK$73,500,001 – HK$74,000,000 *(note(i))*	1	**–**
HK$77,000,001 – HK$77,500,000 *(note(i))*	1	**–**
	3	**3**

(i) Includes a one-off payment realized from a long-term incentive plan in 2017.

13 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	795	**623**
– over provision in respect of prior years	(32)	**(31)**
Overseas tax		
– provision for current year	81	**87**
– over provision in respect of prior years	(23)	**(31)**
Movement of deferred income tax *(note 37(a))*	240	**486**
	1,061	**1,134**

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.

13 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	4,145	**4,184**
Notional tax on profit before income tax, calculated at the Hong Kong tax rate of 16.5% (2017: 16.5%)	684	**690**
Effect of different tax rates of subsidiaries operating overseas	18	**(13)**
Income not subject to tax	(42)	**(109)**
Expenses not deductible for tax purposes	290	**229**
Tax losses not recognized	355	**447**
Over provision in prior years, net	(55)	**(62)**
Utilization of previously unrecognized tax losses	(54)	**(53)**
Recognition of tax losses	(301)	**(18)**
Recognition of previously unrecognized temporary differences	65	**34**
Net income of associates and joint ventures not subject to tax	(9)	**(11)**
Effect on change of corporate tax rate	110	**–**
Income tax expense	1,061	**1,134**

14 DIVIDENDS

In HK$ million	2017	**2018**
Interim dividend declared and paid in respect of current year of 8.91 HK cents (2017: 8.57 HK cents) per ordinary share	662	**688**
Less: dividend for PCCW Shares held by share award schemes	(1)	**(1)**
	661	**687**
Final dividend declared in respect of previous financial year, approved and paid during the year of 21.18 HK cents (2017: 20.17 HK cents) per ordinary share	1,557	**1,635**
Less: dividend for PCCW Shares held by share award schemes	(4)	**(2)**
	1,553	**1,633**
	2,214	**2,320**
Final dividend proposed after the end of the reporting period of 22.33 HK cents (2017: 21.18 HK cents) per ordinary share *(note a)*	1,635	**1,724**

a. The final dividend proposed after the end of the reporting period has not been recognized as a liability as at the end of the reporting period.

15 EARNINGS PER SHARE

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

	2017 (Restated)	**2018**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share arising from:		
Continuing operations	895	**897**
Discontinued operations	1,143	**–**
Number of shares		
Weighted average number of ordinary shares	7,719,638,249	**7,719,638,249**
Effect of PCCW Shares held under the Company's share award schemes	(14,712,266)	**(8,515,434)**
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,704,925,983	**7,711,122,815**
Effect of PCCW Shares awarded under the Company's share award schemes	9,065,515	**9,104,240**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,713,991,498	**7,720,227,055**

16 PROPERTY, PLANT AND EQUIPMENT

In HK$ million			2017			
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,606	14,364	20,399	14,342	2,068	52,779
Additions	40	500	249	574	2,047	3,410
Transfers	16	583	481	430	(1,510)	–
Transferred from investment properties *(note 18)*	121	–	–	–	–	121
Transferred to disposal group classified as held for sale	–	(20)	–	–	–	(20)
Disposals	(3)	(222)	(127)	(169)	–	(521)
Exchange differences	4	22	191	17	–	234
End of year	1,784	15,227	21,193	15,194	2,605	56,003
Accumulated depreciation and impairment						
Beginning of year	576	10,327	11,271	10,904	–	33,078
Charge for the year	45	412	476	709	–	1,642
Transferred to disposal group classified as held for sale	–	(2)	–	–	–	(2)
Disposals	(1)	(221)	(127)	(165)	–	(514)
Exchange differences	1	22	95	–	–	118
End of year	621	10,538	11,715	11,448	–	34,322
Net book value						
End of year	1,163	4,689	9,478	3,746	2,605	21,681
Beginning of year	1,030	4,037	9,128	3,438	2,068	19,701

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	2018					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,784	15,227	21,193	15,194	2,605	56,003
Additions	36	491	280	725	2,370	3,902
Additions upon business combinations	2	–	–	2	–	4
Disposal of interests in subsidiaries *(note 46)*	(62)	–	–	–	–	(62)
Transfers	–	104	312	702	(1,118)	–
Disposals	–	(240)	(26)	(258)	–	(524)
Exchange differences	6	(21)	(66)	(29)	–	(110)
End of year	1,766	15,561	21,693	16,336	3,857	59,213
Accumulated depreciation and impairment						
Beginning of year	621	10,538	11,715	11,448	–	34,322
Charge for the year	48	394	481	665	–	1,588
Disposal of interests in subsidiaries *(note 46)*	(10)	–	–	–	–	(10)
Disposals	–	(240)	(26)	(249)	–	(515)
Exchange differences	1	(17)	(27)	(29)	–	(72)
End of year	660	10,675	12,143	11,835	–	35,313
Net book value						
End of year	1,106	4,886	9,550	4,501	3,857	23,900
Beginning of year	1,163	4,689	9,478	3,746	2,605	21,681

As at December 31, 2018, certain property, plant and equipment with an aggregate carrying amount of approximately HK$923 million (2017: HK$89 million) were pledged as security for certain bank loan facilities of the Group. Refer to note 45 for details of the Group's bank loan facilities.

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

During the year ended December 31, 2017, the Group performed a review to reassess the useful lives of certain property, plant and equipment of the Group, based on the expectations of the Group's operational management and technological trends. The reassessment has resulted in changes in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and therefore accounted for the change on a prospective basis. As a result of this change in accounting estimate, the Group's profit attributable to the equity holders of the Company for the year ended December 31, 2017 increased by HK$91 million and the equity attributable to the equity holders of the Company as at December 31, 2017 increased by HK$91 million.

17 RIGHT-OF-USE ASSETS

In HK$ million	2017 (Restated)	**2018**
Land and buildings	2,666	**3,663**
Network capacity and equipment	571	**512**
Total	3,237	**4,175**

The Group obtains 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.

Additions to the right-of-use assets during the year ended December 31, 2018 were HK$2,854 million (2017: HK$1,421 million).

During the year ended December 31, 2018, total cash outflow for leases of HK$2,013 million (2017: HK$1,978 million) was included in net cash generated from financing activities.

18 INVESTMENT PROPERTIES

In HK$ million	2017	**2018**
Beginning of year	3,216	**3,744**
Additions	647	**44**
Transferred to property, plant and equipment *(note 16)*	(121)	**–**
Exchange differences	2	**(271)**
End of year	3,744	**3,517**

During the year ended December 31, 2017, a portion of the property has been changed from investment property held for rental purpose to owner-occupied property at the commencement of owner occupation and the respective fair value of HK$121 million has been reclassified to property, plant and equipment at the date of transfer.

There was no unrealized gains of the investment properties for the year ended December 31, 2018 (2017: nil) recognized in the consolidated income statement as fair value gains on investment properties.

As at December 31, 2018, value added tax receivables of approximately HK$255 million and HK$11 million (2017: HK$275 million and HK$6 million) in relation to the land acquisition and construction of the investment property are included in other non-current assets and prepayments, deposits and other current assets in the consolidated statement of financial position respectively.

18 INVESTMENT PROPERTIES *(CONTINUED)*

a. Estimation of fair values and valuation techniques

The tables below analyze the investment properties carried at fair value as at December 31, 2017 and 2018. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for asset that are not based on observable market data (level 3).

In HK$ million	2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties				
Indonesia	–	–	3,744	3,744

In HK$ million	**2018**			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Investment properties				
Indonesia	**–**	**–**	**3,517**	**3,517**

During the years ended December 31, 2017 and 2018, there were no transfers between different levels.

Information about level 3 fair value measurements

	2017		
Investment properties	Valuation technique	Unobservable inputs	Rate
Indonesia	Income capitalization approach	Capitalization rate	7%
		Monthly gross market rent:	
		for office	*Rp 340,000/sq.m. to Rp 479,000/sq.m.
		for retail	Rp 330,000/sq.m. to Rp 600,000/sq.m.

18 INVESTMENT PROPERTIES *(CONTINUED)*

a. Estimation of fair values and valuation techniques *(continued)*

Information about level 3 fair value measurements

		2018	
Investment properties	**Valuation technique**	**Unobservable inputs**	**Rate**
Indonesia	**Income capitalization approach**	**Capitalization rate**	**7%**
		Monthly gross market rent:	
		for office	***Rp 340,000/sq.m. to Rp 480,000/sq.m.**
		for retail	**Rp 330,000/sq.m. to Rp 600,000/sq.m.**

* Rp represents Indonesian Rupiah

For the years ended December 31, 2017 and 2018, the fair value of investment property in Indonesia is determined by an independent professional valuer using the income capitalization approach. The valuation takes into account of expected market rental and capitalization rate. A significant change in the expected market rental or capitalization rate would result in a significant change in the fair value of the investment property.

b. The Group leases out investment properties under operating leases. The majority of the leases typically run for periods of 2 to 10 years. None of the leases include material contingent rentals.

19 INTERESTS IN LEASEHOLD LAND

In HK$ million	2017	**2018**
Cost		
Beginning of year	820	**820**
Disposal of interests in subsidiaries *(note 46)*	–	**(7)**
End of year	820	**813**
Accumulated amortization		
Beginning of year	398	**416**
Charge for the year	18	**18**
Disposal of interests in subsidiaries *(note 46)*	–	**(6)**
End of year	416	**428**
Net book value		
End of year	404	**385**
Beginning of year	422	**404**

20 PROPERTIES HELD FOR/UNDER DEVELOPMENT

In HK$ million	2017		
	Properties held for development *(note a)*	Properties under development *(note b)*	Total
Beginning of year	544	380	924
Additions	5	208	213
Exchange differences	49	2	51
End of year	598	590	1,188

In HK$ million	**2018**		
	Properties held for development *(note a)*	**Properties under development** *(note b)*	**Total**
Beginning of year	**598**	**590**	**1,188**
Additions	**2,219**	**505**	**2,724**
Exchange differences	**5**	**17**	**22**
	2,822	**1,112**	**3,934**
Less: classified as current assets	**–**	**(770)**	**(770)**
End of year	**2,822**	**342**	**3,164**

a. Properties held for development as at December 31, 2018 represents freehold land in Thailand and a property in Hong Kong, for which PCPD and its subsidiaries (collectively the "PCPD Group") intends to hold for future development projects.

The land in Thailand is held by the PCPD Group through a long-term operating lease agreement with the legal owners, 39% owned entities of PCPD, established to hold the land, whose financial statements have been consolidated into these consolidated financial statements with the carrying amount of HK$650 million (2017: HK$598 million).

PCPD management has performed assessments on the net realizable value of the property interest together with the costs of improvements spent on the land in Thailand included in properties held for development as at December 31, 2018. The valuation is based on the direct comparison approach which involves the use of estimates and assumptions including the recent sales prices of similar properties with adjustments for any difference in nature, locality and condition of the properties. Changes in the assumptions adopted in the valuation may result in a change in future estimates of the net realizable value of the development project.

Included in the additions is the PCPD Group's completed acquisition of the property located at Nos. 3-6 Glenealy, Central, Hong Kong in March 2018. The consideration comprised (i) an initial cash consideration of HK$2,018 million and an adjustment to initial cash consideration of HK$146 million; and (ii) the allotment and issuance of one non-voting participating share of a wholly-owned subsidiary of PCPD to the seller which entitles the seller the right to 50% of the dividend distributions of the development project. The fair value of the non-voting participating share is estimated to be approximately HK$133 million and is recognized as non-controlling interests in the consolidated statement of financial position as at December 31, 2018. As at December 31, 2018, the carrying amount of HK$2,172 million was recorded as properties held for development in the consolidated statement of financial position.

As at December 31, 2018, the carrying amount of leasehold land included in properties held for development was approximately HK$2,172 million (2017: nil).

20 PROPERTIES HELD FOR/UNDER DEVELOPMENT *(CONTINUED)*

b. Properties under development as at December 31, 2018 represents the freehold land under development in Japan which is held by an indirect wholly-owned subsidiary of PCPD. PCPD management has performed an assessment of the net realizable value of the development project in Japan included in properties under development as at December 31, 2018. The assessment is based on the discounted cash flow forecast of the development project which involves the use of significant estimates and assumptions such as selling prices, construction costs and discount rate. Changes in the assumptions adopted in the valuation may result in a change in future estimate of the net realizable value of the development project.

21 GOODWILL

In HK$ million	2017	**2018**
Cost		
Beginning of year	18,249	**18,282**
Additions upon business combinations	–	**74**
Exchange differences	33	**(10)**
End of year	18,282	**18,346**
Accumulated impairment		
Beginning and end of year	154	**154**
Carrying amount		
End of year	18,128	**18,192**
Beginning of year	18,095	**18,128**

Impairment tests for CGUs containing goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segments as follows:

In HK$ million	2017 (Restated)	**2018**
HKT		
Mobile	15,591	**15,591**
Global Business	855	**846**
Local telephony and data services	201	**202**
	16,647	**16,639**
Media Business		
OTT Business	957	**1,027**
Pay-TV Business	162	**162**
	1,119	**1,189**
Solutions Business	271	**271**
PCPD	91	**93**
Total	18,128	**18,192**

21 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill *(continued)*

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 5-year period, except for the Media Businesses of which a period of up to 10 years is considered appropriate to take into account the business cycle and the significant growth plans for the business which is currently in the start-up and development stage. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

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**
Mobile	1%	3%	2%	11%	**2%**	**3%**	**2%**	**12%**
Global Business	1%	6%	3%	9%	**1%**	**3%**	**3%**	**13%**
Local telephony and data services	1%	1%	1%	8%	**2%**	**2%**	**1%**	**8%**
OTT Business	43%	118%	3%	18%	**37%**	**116%**	**3%**	**20%**
Pay-TV Business	5%	7%	2%	14%	**3%**	**8%**	**3%**	**17%**
Solutions Business	4%	4%	2%	11%	**2%**	**2%**	**2%**	**17%**

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.

22 INTANGIBLE ASSETS

In HK$ million				2017 (Restated)			
	Trademarks	Capitalized programme costs	Carrier licences	Customer base	Software	Others	Total
Cost							
Beginning of year	2,916	1,270	5,075	3,095	2,095	43	14,494
Additions	–	774	103	–	1,396	4	2,277
Transferred to disposal group classified as held for sale	–	–	–	(1)	–	–	(1)
Write-off	–	(142)	–	–	–	–	(142)
Exchange differences	4	2	–	8	1	–	15
End of year	2,920	1,904	5,178	3,102	3,492	47	16,643
Accumulated amortization and impairment							
Beginning of year	1,435	779	1,204	1,276	596	14	5,304
Charge for the year	147	528	413	488	282	16	1,874
Write-off	–	(142)	–	–	–	–	(142)
Exchange differences	1	1	–	2	–	–	4
End of year	1,583	1,166	1,617	1,766	878	30	7,040
Net book value							
End of year	1,337	738	3,561	1,336	2,614	17	9,603
Beginning of year	1,481	491	3,871	1,819	1,499	29	9,190

22 INTANGIBLE ASSETS *(CONTINUED)*

In HK$ million	2018						
	Trademarks	Capitalized programme costs	Carrier licences	Customer base	Software	Others	Total
Cost							
Beginning of year	2,920	1,904	5,178	3,102	3,492	47	16,643
Additions	–	901	104	–	2,350	5	3,360
Additions upon business combinations	–	–	–	13	–	23	36
Write-off	–	(181)	(730)	–	–	–	(911)
Exchange differences	(2)	(5)	–	(1)	–	–	(8)
End of year	2,918	2,619	4,552	3,114	5,842	75	19,120
Accumulated amortization and impairment							
Beginning of year	1,583	1,166	1,617	1,766	878	30	7,040
Charge for the year	146	669	414	489	271	7	1,996
Write-off	–	(181)	(730)	–	–	–	(911)
Exchange differences	(1)	–	–	–	–	–	(1)
End of year	1,728	1,654	1,301	2,255	1,149	37	8,124
Net book value							
End of year	1,190	965	3,251	859	4,693	38	10,996
Beginning of year	1,337	738	3,561	1,336	2,614	17	9,603

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

(Amount expressed in Hong Kong dollars unless otherwise stated)

23 INTERESTS IN SUBSIDIARIES

a. As at December 31, 2018, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Interest held by non-controlling interests
HKT Limited	Cayman Islands/ Hong Kong	Investment holding	HK$3,785,871.167 ordinary shares and HK$3,785,871.167 preference shares	–	52.0%	48.0%
HKT Group Holdings Limited[3] ("HKTGH")	Cayman Islands	Investment holding	US$636,000,013	–	52.0%	48.0%
Hong Kong Telecommunications (HKT) Limited[3] ("HKTL")	Hong Kong	Provision of telecommunications services	HK$9,945,156,001	–	52.0%	48.0%
電訊盈科科技(北京)有限公司[1,3] (PCCW Technology (Beijing) Limited*)	The People's Republic of China (the "PRC")	System integration, software development and technical services consultancy	RMB40,000,000	–	52.0%	48.0%
HKT Services Limited[3]	Hong Kong	Provision of management services to group companies	HK$1	–	52.0%	48.0%
Esencia Investments Limited	British Virgin Islands	Investment holding	US$1	–	100%	–
Great Epoch Holdings Limited	British Virgin Islands	Investment holding	US$4	–	100%	–
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support services, electronics and communications engineering, products and solutions	HK$700,002	–	100%	–
CSL Mobile Limited[3]	Hong Kong	Provision of mobile services to its customers and the sale of mobile handsets and accessories	HK$7,900,280,100 ordinary shares and HK$1,254,000,000 non-voting deferred shares	–	52.0%	48.0%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services, the sale of advertising in various telephone directories, the publishing of those directories in Hong Kong and the sale of advertising on the Internet	HK$5,507,310,269 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares	–	100%	–
PCCW Content Limited	Hong Kong	Media	HK$1	–	100%	–
Moov (Hong Kong) Limited[6]	Hong Kong	Provision of multi-platform digital music service	HK$1	–	82%	18%
PCCW OTT (Hong Kong) Limited[6]	Hong Kong	Provision of interactive multimedia services	HK$1	–	82%	18%
HK Television Entertainment Company Limited[4] ("HKTVE")	Hong Kong	Broadcasting and related services	HK$50 "A" Class shares (non-voting), HK$100 "B" Class shares (voting) and HK$50 "C" Class shares (non-voting)	–	100%	–
Vuclip, Inc.[6]	California, U.S.	Management and engineering support services	US$1	–	77.7%	22.3%
PC Music Holdings Limited	British Virgin Islands	Investment holding	US$11	–	100%	–
PCCW Productions Limited	Hong Kong	Production of content for different media	HK$2	–	100%	–
HKT Teleservices International Limited[3]	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$350,000,002	–	52.0%	48.0%
HKT Teleservices (US), Inc.[3]	Nebraska, U.S.	Provision of call center and telemarketing services	US$1,169[7]	–	52.0%	48.0%
廣州電盈綜合客戶服務技術發展有限公司[1,3] (PCCW Customer Management Technology and Services (Guangzhou) Limited*)	The PRC	Customer service and consultancy	HK$93,240,000	–	52.0%	48.0%
PCCW (Macau), Limitada[2,3]	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	–	39.0%	61.0%

23 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2018, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

				Interest held by		
Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	the Company Directly	the Company Indirectly	non-controlling interests
PCCW Global B.V.[3]	Netherlands/France	Sales, distribution and marketing of telecommunication services and products	EUR18,000	–	52.0%	48.0%
PCCW Global (Japan) K.K.[3]	Japan	Provision of telecommunications services	JPY10,000,000	–	52.0%	48.0%
PCCW Global (HK) Limited[3]	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK$10	–	52.0%	48.0%
PCCW Global Limited[3]	Hong Kong/Dubai Media City	Provision of network-based telecommunications services	HK$240,016,690.65	–	52.0%	48.0%
PCCW Global, Inc.[3]	Delaware, U.S.	Supply of broadband internet access solutions and web services	US$18.01	–	52.0%	48.0%
HKT Global (Singapore) Pte. Ltd.[3]	Singapore/Malaysia	Provision of telecommunications solutions related services	S$60,956,485.64	–	52.0%	48.0%
Gateway Global Communications Limited[3]	United Kingdom	Provision of network-based telecommunications services to external customers and related companies	GBP1	–	52.0%	48.0%
Gateway Communications S.A.S.[3]	France	Provision of wholesale voice and data services	EUR10,000	–	52.0%	48.0%
Sun Mobile Limited[2, 3]	Hong Kong	Provision of mobile telecommunications services to customers in Hong Kong	HK$41,600,000	–	31.2%	68.8%
HKT Payment Limited[3]	Hong Kong	Issue of stored value facilities in Hong Kong	HK$480,000,000	–	52.0%	48.0%
電訊盈科(北京)有限公司[1] (PCCW (Beijing) Limited*)	The PRC	Software development, systems integration, consulting and informatization projects	US$10,250,000	–	100%	–
PCCW Solutions Limited	Hong Kong	Provision of computer services and IP/IT related value-added services to business customers	HK$1,772,294,067.89	–	100%	–
電訊盈科信息技術(廣州)有限公司[1] (PCCW Solutions (Guangzhou) Limited*)	The PRC	Systems integration and technology consultancy	HK$35,300,000	–	100%	–
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related value-added services to business customers	HK$2	–	100%	–
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Provision of data center services	HK$2	–	100%	–
Pacific Century Premium Developments Limited	Bermuda/Hong Kong	Investment holding	HK$201,094,656.50	–	70.9%	29.1%
Cyber-Port Limited[5]	Hong Kong	Property development	HK$2	–	70.9%	29.1%
Talent Master Investments Limited[5]	British Virgin Islands/ Hong Kong	Property investment	US$1	–	70.9%	29.1%
Nihon Harmony Resorts KK[5]	Japan	Ski operation	JPY405,000,000	–	70.9%	29.1%
Harmony TMK[5]	Japan	Property development	JPY100,000,000 specified capital and JPY14,050,000,000 preferred captial	–	70.9%	29.1%
Triple 8 KK[5]	Japan	Property development and hotel management	JPY199,000,000	–	70.9%	29.1%
PT Prima Bangun Investama[5]	Indonesia	Property development and management	US$26,000,000	–	70.9%	29.1%
Phang-nga Leisure Limited[2, 5]	Thailand	Property holding and leasing	THB2,000,000	–	27.7%	72.3%
Phang-nga Paradise Limited[2, 5]	Thailand	Property holding and leasing	THB2,000,000	–	27.7%	72.3%

* Unofficial company name

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

23 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2018, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Notes:

1 Represents a wholly foreign owned enterprise.

2 These companies are consolidated by the Group as the Group owns more than one half of the shareholders' voting rights and/or more than one half of the voting rights in the board of directors of these companies.

3 These companies are subsidiaries of HKT Trust and HKT, Share Stapled Units of which are listed on the main board of the Stock Exchange, which prepares its consolidated financial statements for HKT Trust, HKT and its subsidiaries (collectively the "HKT Group") in accordance with Hong Kong Financial Reporting Standards.

4 Pursuant to the Broadcasting Ordinance (Cap. 562) and the Hong Kong Companies Ordinance (Cap. 622) being in force as at December 31, 2018, HKTVE was not treated by PCCW as a subsidiary as defined therein.

5 These companies are subsidiaries of PCPD, shares of which are listed on the main board of the Stock Exchange, which prepares its consolidated financial statements for the PCPD Group in accordance with Hong Kong Financial Reporting Standards. The Group holds approximately 70.9% of the ordinary shares of PCPD and certain non-redeemable bonus convertible notes with conversion rights to acquire a further approximately 21.7% of ordinary shares of PCPD. As the non-redeemable bonus convertible notes contain rights to dividends and can be converted at any time provided that the public float requirements could be complied with, PCCW consolidates the results of PCPD on its approximately 92.6% economic interest taking into account the non-redeemable bonus convertible notes on an as-converted basis in accordance with Hong Kong Financial Reporting Standards.

6 These companies are subsidiaries of PCCW International OTT (Cayman Islands) Holdings Limited ("PCCW OTT"), previously an indirect wholly-owned subsidiary of the Company. On September 25, 2017, PCCW OTT issued and allotted to three investors an aggregate of 11,000,000 series A convertible redeemable voting preference shares of a par value of US$1.00 each (the "OTT Preference Shares"), representing approximately 18% of its enlarged issued share capital. Refer to note 39(a) for details. PCCW consolidates the results of PCCW OTT and its subsidiaries on its 100% economic interest taking into account the OTT Preference Shares in accordance with Hong Kong Financial Reporting Standards.

7 Excluding the treasury stock.

b. Significant restrictions

Refer to note 29(b) for the restricted cash balances that mainly relate to PCPD included within the consolidated financial statements which are subject to the Cyberport Project Agreement.

c. Summarized financial information of subsidiaries with material non-controlling interests

Set out below is summarized consolidated financial information for the HKT Group and the PCPD Group which are subsidiaries that have non-controlling interests that are material to the Group.

Summarized statements of financial position as at December 31, 2017 and 2018 are as follows:

In HK$ million	HKT Group		PCPD Group	
	2017 (Restated)	**2018**	2017 (Restated)	**2018**
Non-current assets	84,315	**86,836**	5,925	**8,843**
Current assets	10,857	**10,729**	4,469	**2,729**
Total assets	95,172	**97,565**	10,394	**11,572**
Current liabilities	(11,687)	**(12,141)**	(932)	**(1,039)**
Non-current liabilities	(45,595)	**(47,830)**	(4,801)	**(6,427)**
Net assets	37,890	**37,594**	4,661	**4,106**
Non-controlling interests	(40)	**(39)**	–	**(133)**
Net assets after non-controlling interests	37,850	**37,555**	4,661	**3,973**

23 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

c. Summarized financial information of subsidiaries with material non-controlling interests *(continued)*

Summarized financial information for the years ended December 31, 2017 and 2018 is as follows:

In HK$ million	HKT Group 2017 (Restated)	HKT Group 2018	PCPD Group 2017 (Restated)	PCPD Group 2018
Revenue	33,067	**35,187**	164	**300**
Profit/(loss) before income tax	5,655	**5,852**	(313)	**(389)**
Income tax	(898)	**(1,010)**	(26)	**(48)**
Profit/(loss) for the year	4,757	**4,842**	(339)	**(437)**
Other comprehensive (loss)/income	(431)	**(136)**	55	**(250)**
Total comprehensive income/(loss)	4,326	**4,706**	(284)	**(687)**
Non-controlling interests	(12)	**(17)**	–	**–**
Total comprehensive income/(loss) after non-controlling interests	4,314	**4,689**	(284)	**(687)**
Dividends paid to non-controlling interests	2,320	**2,416**	–	**–**

Summarized cash flows for the years ended December 31, 2017 and 2018 are as follows:

In HK$ million	HKT Group 2017 (Restated)	HKT Group 2018	PCPD Group 2017 (Restated)	PCPD Group 2018
Cash flows from operating activities				
Cash generated from/(used in) operations	10,946	**11,318**	(294)	**(3,021)**
Interest received	26	**39**	42	**56**
Income tax paid, net of tax refund	(711)	**(698)**	(22)	**(41)**
Net cash generated from/(used in) operating activities	10,261	**10,659**	(274)	**(3,006)**
Net cash (used in)/generated from investing activities	(3,915)	**(4,789)**	(1,810)	**127**
Net cash (used in)/generated from financing activities	(6,021)	**(6,541)**	3,820	**1,100**
Net increase/(decrease) in cash and cash equivalents	325	**(671)**	1,736	**(1,779)**
Exchange differences	10	**(12)**	29	**10**
Cash and cash equivalents at January 1,	2,882	**3,217**	868	**2,633**
Cash and cash equivalents at December 31,	3,217	**2,534**	2,633	**864**

The information above represents amounts before inter-company eliminations and group consolidation adjustments.

The total comprehensive income after group consolidation adjustments of the HKT Group for the year ended December 31, 2018 was HK$4,409 million (2017 (restated): HK$4,223 million), of which HK$2,133 million (2017 (restated): HK$2,052 million) was allocated to the non-controlling interests.

23 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

c. Summarized financial information of subsidiaries with material non-controlling interests *(continued)*

The total comprehensive loss after group consolidation adjustments of the PCPD Group for the year ended December 31, 2018 was HK$691 million (2017 (restated): HK$284 million), of which a loss of HK$51 million (2017: HK$21 million) was allocated to the non-controlling interests.

The net assets after non-controlling interests and group consolidation adjustments of the HKT Group as at December 31, 2018 were HK$4,252 million (2017 (restated): HK$4,815 million) and the net assets after non-controlling interests and group consolidation adjustments of the PCPD Group as at December 31, 2018 were HK$3,904 million (2017: HK$4,596 million).

The total non-controlling interests as at December 31, 2018 were HK$2,514 million (2017 (restated): HK$2,702 million), of which HK$2,081 million (2017 (restated): HK$2,352 million) and HK$420 million (2017: HK$339 million) were attributed to the HKT Group and the PCPD Group, respectively.

24 INTERESTS IN ASSOCIATES

In HK$ million	2017	**2018**
Share of net assets of associates	844	**901**
Loans due from associates, net	313	**312**
Amount due from an associate	34	**34**
	1,191	**1,247**
Provision for impairment	(472)	**(469)**
	719	**778**
Investments at cost, unlisted shares	824	**815**

a. Particulars of the principal associate of the Group are as follows:

Company name	Principal place of business/place of incorporation	Principal activities	Amount of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
石化盈科信息技術有限責任公司 (Petro-CyberWorks Information Technology Company Limited*) ("PCITC")	The PRC	Design and development of enterprise resource planning systems, and customer relationship management systems	RMB300,000,000	–	45%	Equity

* Unofficial company name

PCITC is strategic to the Group's growth in its Solutions business and provides the Group with access to expertise in design and development of enterprise resources planning, logistics management, supply chain management, customer relationship management and information system supervision, consultation and testing.

PCITC is a private company and there is no quoted market price available for its shares.

b. Contingent liabilities in respect of associates

The Group's contingent liabilities relating to its associates are disclosed in note 44. As at December 31, 2018, the Group's effective share of the contingent liabilities of an associate relating to performance guarantees was HK$8 million (2017: HK$13 million).

24 INTERESTS IN ASSOCIATES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's associates

Set out below is the summarized unaudited financial information for the associate that is material to the Group and is accounted for using the equity method.

Summarized unaudited financial information is as follows:

In HK$ million	PCITC As at December 31, 2017 (Restated)	**2018**
Non-current assets	752	**760**
Current assets	3,956	**3,803**
Current liabilities	(3,078)	**(2,807)**
Non-current liabilities	(96)	**(91)**

In HK$ million	PCITC For the year ended December 31, 2017 (Restated)	**2018**
Revenue	3,640	**3,356**
Profit after income tax and total comprehensive income	211	**219**
Dividends received from the associate	6	**7**

The information above reflects the amounts presented in the financial statements of the associate (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate, if any.

For the year ended December 31, 2018, the Group 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 Group's 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.

24 INTERESTS IN ASSOCIATES *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interests in the principal associate.

In HK$ million	PCITC	
	2017 (Restated)	**2018**
Net assets		
Beginning of year	1,259	**1,534**
Profit and total comprehensive income for the year	211	**219**
Exchange differences	76	**(72)**
Dividends	(12)	**(16)**
End of year	1,534	**1,665**
Interests in the associate	45%	**45%**
Interests in the associate	690	**749**
Carrying amount	690	**749**

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 has been made as at December 31, 2017 and 2018.

During the year ended December 31, 2017, a provision for impairment of interests in associates amounted to HK$154 million is included in other gains/(losses), 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, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method is HK$29 million (2017: HK$29 million).

During the year ended December 31, 2018, the Group had unrecognized share of losses of associates of HK$7 million (2017: nil). As at December 31, 2018, the Group had unrecognized accumulated share of losses of the associates of HK$7 million (2017: nil).

25 INTERESTS IN JOINT VENTURES

In HK$ million	2017	**2018**
Share of net assets of joint ventures	2,981	**2,916**
Loans due from joint ventures, net	449	**382**
Amounts due from joint ventures	25	**25**
	3,455	**3,323**
Provision for impairment	(2,863)	**(2,793)**
	592	**530**
Investments at cost, unlisted shares	3,876	**3,668**

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 Group are as follows:

Company name	Principal place of business/place of incorporation	Principal activities	Amount of issued capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement method
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	26.0%	Equity

GBL is a strategic partnership of the Group, providing access to advanced connectivity services in Hong Kong for the development of mobile business.

GBL 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 Group's share of its joint ventures' commitments, based on the Group's effective interest, were as follows:

In HK$ million	2017	**2018**
Commitment to provide funding	45	**38**

In HK$ million	2017	**2018**
Capital commitment authorized and contracted for acquisition of property, plant and equipment	29	**13**

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2018, the Group had no effective share of contingent liabilities relating to its joint ventures (2017: nil).

25 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Group's joint ventures

Set out below is the summarized unaudited financial information of GBL, the principal joint venture of the Group and being accounted for using the equity method.

In HK$ million	GBL 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	GBL 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)**
Dividends received from the joint venture	–	**–**

The information above reflects the amounts presented in the financial statements of the joint venture (not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint venture, if any.

For the year ended December 31, 2018, the aggregate net amounts of the Group's share of loss after income tax, other comprehensive income and total comprehensive loss of individually immaterial joint ventures that are accounted for using the equity method are HK$24 million (2017: HK$22 million), nil (2017: nil) and HK$24 million (2017: HK$22 million), respectively.

25 INTERESTS IN JOINT VENTURES *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information of the Group's joint ventures

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Group's interest in GBL, the principal joint venture.

In HK$ million	GBL	
	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 joint venture	50%*	**50%***
Interest in joint venture	(32)	**(37)**
Loan due from a joint venture	426	**382**
Carrying amount	394	**345**

* The Group held approximately 26.0% (2017: 26.0%) effective interest through its non-wholly owned subsidiary in the equity of GBL as at December 31, 2018.

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$185 million (2017: HK$198 million).

During the year ended December 31, 2018, the Group had unrecognized share of losses of joint ventures of HK$1 million (2017: nil). As at December 31, 2018, the Group had unrecognized accumulated share of losses of the joint ventures of HK$1 million (2017: nil).

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	2017
Beginning of year	1,057
Additions	975
Disposals	(117)
Fair value gains recognized in other comprehensive income	106
End of year	2,021

In HK$ million	2017
Non-current assets	
Listed securities	1,133
Unlisted securities	888
	2,021

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS *(CONTINUED)*

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.

During the year ended December 31, 2017, AFS financial assets with a carrying amount of approximately HK$117 million were sold and a total realized gain of HK$68 million was recognized in other gains/(losses), net in the consolidated income statement, including HK$9 million which was transferred from equity to the consolidated income statement on disposal.

As at December 31, 2017, certain AFS financial assets with a carrying amount of approximately HK$1,039 million were pledged as security for certain bank loan facilities of the Group. Refer to note 45 for details of the Group's bank loan facilities.

As disclosed in note 4(d), after adoption of HKFRS 9 (2014), AFS financial assets were reclassified as financial assets at FVOCI or financial assets at FVPL as at January 1, 2018.

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In HK$ million	**2018**
Beginning of year	**1,183**
Fair value losses recognized in other comprehensive income	**(81)**
End of year	**1,102**

In HK$ million	**2018**
Non-current assets	
Listed securities	**1,025**
Unlisted securities	**77**
	1,102

Financial assets at FVOCI comprise an equity investment listed on Euronext Amsterdam with carrying amount of HK$1,025 million and an unlisted equity investment with carrying amount of HK$77 million, both of which were not held for trading purposes.

These investments were classified as AFS financial assets as at December 31, 2017. In the prior financial year, the Group had designated these investments as AFS financial assets where management did not intend to dispose these assets within 12 months from the end of the reporting period (see note 26). See note 4(d) for explanations regarding the change in accounting policies and the reclassification of certain investments from AFS financial assets to financial assets at FVOCI.

As at December 31, 2018, certain financial assets at FVOCI with a carrying amount of approximately HK$963 million were pledged as security for certain bank loan facilities of the Group. Refer to note 45 for details of the Group's bank loan facilities.

28 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	2018
Beginning of year	917
Additions	79
Disposals	(565)
Fair value gains recognized in other (losses)/gains, net	300
End of year	731

In HK$ million	2018
Non-current assets	
Listed securities	9
Unlisted securities	722
	731

Financial assets at FVPL comprise:

- debt instruments that do not qualify for measurement at either amortized cost or at FVOCI; and
- equity investments for which the Group has not elected to recognize fair value gains and losses through other comprehensive income.

These investments were classified as AFS financial assets as at December 31, 2017. In the prior financial year, the Group had designated these investments as AFS financial assets where management did not intend to dispose these assets within 12 months from the end of the reporting period (see note 26). See note 4(d) for explanations regarding the change in accounting policies and the reclassification of certain investments from AFS financial assets to financial assets at FVPL.

29 CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of properties of the PCPD Group's property development project that are retained in bank accounts opened and maintained by stakeholders. The amount is related to the residential portion of the Cyberport project and will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement. The sales proceeds held in stakeholders' accounts of HK$507 million as at December 31, 2018 (2017: HK$508 million) are exposed to minimum credit risk.

b. Restricted cash

Restricted cash mainly includes a balance of approximately HK$94 million as at December 31, 2018 (2017: HK$93 million) held in specific bank accounts, the uses of which are specified in the Cyberport Project Agreement, and balance of approximately HK$221 million as at December 31, 2018 (2017: nil) held in specific reserve accounts pledged for certain bank borrowings purpose.

As at December 31, 2018, restricted cash balance pledged for bank borrowings purpose of HK$217 million was classified under the non-current assets in the consolidated statement of financial position.

c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets of the Group are prepaid programme costs of approximately HK$325 million as at December 31, 2018 (2017: HK$885 million).

d. Inventories

In HK$ million	2017	**2018**
Purchased parts and materials	492	**801**
Finished goods	367	**400**
Consumable inventories	52	**79**
	911	**1,280**

e. Trade receivables, net

In HK$ million	2017	**2018**
Trade receivables *(note i)*	3,921	**5,011**
Less: loss allowance *(note ii)*	(257)	**(212)**
Trade receivables, net	3,664	**4,799**

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 Group's impairment policies are provided in note 2(p)(i).

Included in trade receivables, net are amounts due from related parties of HK$56 million (2017: HK$55 million).

29 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

e. Trade receivables, net *(continued)*

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

In HK$ million	2017	**2018**
1 – 30 days	2,366	**3,422**
31 – 60 days	410	**526**
61 – 90 days	248	**202**
91 – 120 days	205	**162**
Over 120 days	692	**699**
	3,921	**5,011**

ii. Impairment for trade receivables

The Group applies 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	**38%**

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	272	**257**
Net impairment loss recognized	288	**251**
Uncollectible amounts written off	(303)	**(296)**
End of year	257	**212**

29 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

f. Short-term borrowings

In HK$ million	2017	**2018**
Bank borrowings	622	**608**
Secured	622	**608**
Unsecured	–	**–**

Refer to note 45 for details of the Group's bank loan facilities.

g. 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	1,393	**1,287**
31 – 60 days	143	**140**
61 – 90 days	43	**59**
91 – 120 days	47	**28**
Over 120 days	462	**438**
	2,088	**1,952**

Included in trade payables are amounts due to related parties of HK$32 million (2017: HK$43 million).

h. Assets and liabilities of disposal group classified as held for sale and discontinued operations

As at December 31, 2016, the assets and liabilities related to Transvision Investments Limited ("Transvision"), a then indirect wholly-owned subsidiary of the Company, and its subsidiaries were presented as held for sale in the Group's consolidated statement of financial position. UK Broadband Limited, a then direct wholly-owned subsidiary of Transvision (together with Transvision, the "Transvision Group"), was engaged in the provision of wireless broadband services in the United Kingdom. The principal assets of UK Broadband Limited were its holding of certain licences for radio frequency spectrum, its wireless networks and related systems, and its customers.

On February 6, 2017, the Group entered into a share purchase agreement pursuant to which the Group has agreed to sell the entire issued share capital of Transvision to an independent third party (the "Buyer") for GBP250 million cash (equivalent to approximately HK$2,509 million) and two restricted use credit vouchers issued by the Buyer with a face value of GBP25 million (equivalent to approximately HK$251 million) each upon completion of the sale under the share purchase agreement. The aggregate consideration is subject to possible adjustment in accordance with the terms of the share purchase agreement. The credit vouchers can be applied against specific domestic service charges (excluding value added tax) payable under a corresponding mobile virtual network operator ("MVNO") agreement pursuant to which the Buyer will provide access to capacity on its mobile network. Each credit voucher is transferrable, subject to certain restrictions.

The transaction was completed in May 2017. The fair value of the two credit vouchers was not recognized at the completion of the transaction, and at December 31, 2017 and 2018, due to the uncertainty of potential market condition and the range of potential value being too wide for an amount to be measured reliably. The value will be assessed in future reporting periods and recognized once an amount can be measured reliably.

29 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

h. Assets and liabilities of disposal group classified as held for sale and discontinued operations *(continued)*

i. Analysis of the results of discontinued operations

In 2018, the Group has ceased the remaining operations of its wireless broadband and related business component in the United Kingdom. The consolidated financial statements and the comparative figures have been prepared to reflect the results of the discontinued operations separately.

The results of discontinued operations for the year ended December 31, 2017 are as follows:

In HK$ million	
Discontinued operations	
Revenue	30
Cost of sales	(16)
General and administrative expenses	(107)
Other gains, net	1,236
Profit before income tax	1,143
Income tax	–
Profit for the year	1,143
Translation exchange differences:	
– exchange differences on translating foreign operations	(28)
– reclassification of currency translation reserve on disposal of subsidiaries	(172)
Other comprehensive loss	(200)

ii. Analysis of the cash flows of discontinued operations

The cash flows of discontinued operations for the year ended December 31, 2017 are as follows:

In HK$ million	
Net cash used in operating activities	(1)
Net cash generated from investing activities	2,388
Net increase in cash and cash equivalents	2,387

i. Other financial assets

As at December 31, 2017, other financial assets of HK$79 million represents an investment in an unlisted non-equity LIBOR based liquidity fund designated as financial assets at FVPL.

The change in fair values of other financial assets during the year ended December 31, 2017 of HK$1 million was recognized in other gains/(losses), net in the consolidated income statement.

As disclosed in note 4(d), after adoption of HKFRS 9 (2014), other financial assets were reclassified as financial assets at FVPL as at January 1, 2018.

30 LONG-TERM BORROWINGS

In HK$ million	2017	**2018**
Repayable within a period		
– over one year, but not exceeding two years	9,350	**3,253**
– over two years, but not exceeding five years	18,804	**31,412**
– over five years	18,459	**14,642**
	46,613	**49,307**
Representing:		
US$300 million 5.75% guaranteed notes due 2022 *(note a)*	2,218	**2,277**
US$500 million 3.75% guaranteed notes due 2023 *(note b)*	3,787	**3,818**
US$300 million zero coupon guaranteed notes due 2030 *(note c)*	2,329	**2,335**
US$500 million 3.625% guaranteed notes due 2025 *(note d)*	3,863	**3,878**
EUR200 million 1.65% guaranteed notes due 2027 *(note e)*	1,830	**1,761**
US$100 million zero coupon guaranteed notes due 2030 *(note f)*	776	**778**
US$750 million 3.00% guaranteed notes due 2026 *(note g)*	5,823	**5,840**
US$570 million 4.75% guaranteed notes due 2022 *(note h)*	4,422	**4,439**
Bank borrowings	21,565	**24,181**
	46,613	**49,307**
Secured	51	**1,644**
Unsecured	46,562	**47,663**

a. US$300 million 5.75% guaranteed notes due 2022

On April 17, 2012, PCCW Capital No. 4 Limited, a direct wholly-owned subsidiary of the Company, issued US$300 million 5.75% guaranteed notes due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

b. US$500 million 3.75% guaranteed notes due 2023

On March 8, 2013, PCCW-HKT Capital No.5 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

c. US$300 million zero coupon guaranteed notes due 2030

On January 15, 2015, HKT Capital No. 1 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$300 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange in Taiwan, China. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

30 LONG-TERM BORROWINGS *(CONTINUED)*

d. US$500 million 3.625% guaranteed notes due 2025

On April 2, 2015, HKT Capital No. 2 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 3.625% guaranteed notes due 2025, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

e. EUR200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, an indirect non-wholly owned subsidiary of the Company, issued EUR200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

f. US$100 million zero coupon guaranteed notes due 2030

On May 20, 2015, PCCW Capital No. 5 Limited, a direct wholly-owned subsidiary of the Company, issued US$100 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange in Taiwan, China. The notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

g. US$750 million 3.00% guaranteed notes due 2026

On July 14, 2016, HKT Capital No. 4 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$750 million 3.00% guaranteed notes due 2026, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

h. US$570 million 4.75% guaranteed notes due 2022

On March 9, 2017, PCPD Capital Limited ("PCPD Capital"), an indirect non-wholly owned subsidiary of the Company, issued US$570 million 4.75% guaranteed notes due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by PCPD and rank pari passu with all other outstanding unsecured and unsubordinated obligations of PCPD Capital and PCPD.

i. Refer to note 45 for details of the Group's bank loan facilities.

31 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

Pursuant to the agreement dated May 17, 2000 entered into by the PCPD Group with the Government of Hong Kong (the "Government") (the "Cyberport Project Agreement"), the Government shall be entitled to receive payments of approximately 65% from the surplus cash flow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. The amount payable to the Government is based on the surplus from sales proceeds of the residential portion after the development costs of the Cyberport project. As at December 31, 2018, the amount attributable to the Government share under the Cyberport Project Agreement was HK$322 million (2017: HK$321 million).

32 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	2017 (Restated)	**2018**
Non-current assets		
Cross currency swap contracts and foreign exchange forward contracts		
– cash flow hedges for foreign currency risk *(note a)*	185	**120**
Interest rate swap contract		
– cash flow hedge for interest rate risk *(note b)*	40	**32**
	225	**152**
Current assets		
Foreign currency option *(note d)*	1	**4**
Non-current liabilities		
Cross currency swap contracts		
– cash flow hedges for foreign currency risk *(note a)*	(159)	**(155)**
Cross currency swap contracts		
– fair value hedges for interest rate risk and foreign currency risk *(note c)*	(94)	**(79)**
OTT Preference Shares Derivative (as defined in note 39(a)) *(note d)*	(29)	**(29)**
	(282)	**(263)**
Current liabilities		
OTT Preference Shares Option (as defined in note 39(a)) *(note d)*	(15)	**–**

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 Group's 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.

32 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Cash flow hedges for foreign currency risk

For certain borrowings denominated in foreign currencies, the Group enters into cross currency swap contracts and foreign exchange forward contracts to hedge the foreign currency risk. The Group performs qualitative assessment of hedge effectiveness. As the cross currency swap contracts and the foreign exchange forward contracts 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 Group's financial position and performance are as follows:

	2017	**2018**
Carrying amount (assets/(liabilities))	HK$26 million	**(HK$35 million)**
Notional amount	EUR200 million and US$2,553 million	**EUR200 million and US$2,553 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$257 million)	**(HK$142 million)**
Change# in value of the hedged item during the year	HK$305 million	**HK$162 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 hedge for interest rate risk

For certain borrowings subject to cash flow interest rate risk, the Group enters into a floating-to-fixed interest rate swap contract. The Group performs 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 Group's 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.

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Fair value hedges for interest rate risk and foreign currency risk

For certain fixed rate borrowings denominated in foreign currencies, the Group enters into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk. The Group performs qualitative assessment of hedge effectiveness. As the cross currency swap contracts 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 hedged instrument.

The effects of the interest rate and foreign currency related hedging instruments on the Group's financial position and performance are as follows:

	2017	**2018**
Carrying amount (liabilities)	(HK$94 million)	**(HK$79 million)**
Notional amount	US$300 million	**US$300 million**
Maturity date	April 2022	**April 2022**
Hedge ratio	1:1*	**1:1***
Change# in fair value of the hedging instrument during the year	HK$24 million	**HK$57 million**
Change# in value of the hedged item during the year	(HK$23 million)	**(HK$55 million)**
Receive leg/pay leg interest ratio	1.27	**0.78**

* 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.

As at December 31, 2018, included in the long-term borrowings were carrying amount of the hedged item of the fair value hedges of HK$2,277 million (2017: HK$2,218 million). As at December 31, 2018, the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item was HK$37 million (2017: HK$92 million).

d. Other derivatives

The foreign currency options outstanding as at December 31, 2018 gives the Group a right to sell EUR45 million (2017: EUR35 million) and buy USD at the strike price of 1.125 EUR/USD expiring in June 2019 (2017: June 2018). The option is remeasured at fair value with a loss of HK$1 million (2017: HK$7 million) recognized in the other gains/(losses), net in the consolidated income statement for the year ended December 31, 2018.

OTT Preference Shares Derivative and OTT Preference Shares Option (both as defined under note 39(a)) are measured at fair value with fair value gain of HK$15 million (2017: HK$7 million) recognized in the other gains/(losses), net in the consolidated income statement for the year ended December 31, 2018.

Details of the OTT Preference Shares are described in note 39(a).

32 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Hedging reserve and costs of hedging reserve

The Group's hedging reserve and costs of hedging reserve relate to the following hedging instruments:

In HK$ million	Cash flow hedges for foreign currency risk	Cash flow hedge for interest rate risk	Total
Hedging reserve			
At January 1, 2017	390	32	422
Cash flow hedges:			
– effective portion of changes in fair value	(209)	(13)	(222)
– transfer from equity to consolidated income statement	(181)	–	(181)
At December 31, 2017	–	19	19
Changes in accounting policies *(note 4(d))*	177	5	182
At January 1, 2018 (restated)	**177**	**24**	**201**
Cash flow hedges:			
– effective portion of changes in fair value	**(100)**	**(6)**	**(106)**
– transfer from equity to consolidated income statement	**17**	**–**	**17**
At December 31, 2018	**94**	**18**	**112**

In HK$ million	Cash flow hedges for foreign currency risk	Fair value hedges for interest rate risk and foreign currency risk	Total
Costs of hedging reserve			
At January 1 and December 31, 2017	–	–	–
Changes in accounting policies *(note 4(d))*	(135)	(3)	(138)
At January 1, 2018 (restated)	**(135)**	**(3)**	**(138)**
Costs of hedging	**45**	**(18)**	**27**
At December 31, 2018	**(90)**	**(21)**	**(111)**

33 SHARE CAPITAL

	Year ended December 31,			
	2017		**2018**	
	Number of shares	Share capital HK$ million	**Number of shares**	**Share capital HK$ million**
Ordinary shares of no par value, issued and fully paid:				
As at January 1, and December 31,	7,719,638,249	12,954	**7,719,638,249**	**12,954**

34 EMPLOYEE RETIREMENT BENEFITS

a. Defined benefit retirement schemes

The Group operates defined benefit retirement schemes ("DB Schemes") that provide monthly pension payments for employees retired on or before July 1, 2003. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by an independent trustee and maintained independently of the Group's finances.

The DB Schemes are funded by contributions from the Group and employees in accordance with qualified independent actuaries' recommendations from time to time on the basis of periodic valuations.

According to the funding valuation as at December 31, 2017, the expected employer contributions for the year ending December 31, 2019 are approximately HK$4 million.

The independent actuarial valuation of the DB Schemes as at December 31, 2018, prepared in accordance with HKAS 19 (2011), was carried out by Ms Wing Lui of Willis Towers Watson, a fellow of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 53% (2017: 64%) of the present value of the defined benefit retirement schemes obligations as at December 31, 2018.

The weighted average duration of the defined benefit retirement schemes obligations is 11.6 years (2017: 13.0 years).

34 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

i. The amount recognized in the consolidated statement of financial position is as follows:

In HK$ million	2017	**2018**
Present value of the defined benefit retirement schemes obligations *(note iii)*	292	**290**
Fair value of scheme assets *(note iv)*	(187)	**(155)**
Defined benefit retirement schemes liability	105	**135**

In HK$ million	2017	**2018**
Beginning of year	154	**105**
Net costs recognized in consolidated income statement	2	**2**
Remeasurements recognized in consolidated statement of comprehensive income	(38)	**30**
Contributions from employers	(13)	**(2)**
End of year	105	**135**

ii. Major categories of scheme assets as a percentage of total scheme assets are as follows:

	2017	**2018**
Equities	55%	**75%**
Fixed income securities	36%	**17%**
Cash and alternatives	9%	**8%**
Total	100%	**100%**

The Group ensures that the investment positions are managed within an asset-liability matching framework with the objective to match assets to the defined benefit retirement schemes obligations (i.e. to match the benefit payments as they fall due and in the appropriate currency). The Group has not changed the process used to manage its risk from previous periods.

Through the DB Schemes, the Group is exposed to a number of risks, the most significant of which are detailed below:

- Investment risk: strong investment returns tend to increase the fair value of scheme assets and therefore improve the scheme's financial position as measured by the net defined benefit retirement schemes liability/asset, whilst poor or negative investment returns tend to weaken the financial position.

  The scheme assets are invested in a globally diversified portfolio of equities, fixed income securities, cash and alternatives, covering major geographical locations around the world to achieve the best returns over the long term within an acceptable level of risk. The diversification of asset classes and geographical locations helps to reduce the concentration of risk associated with the scheme investments.

- Interest rate risk: the defined benefit retirement schemes obligations are calculated using a discount rate based on market bond yields. A decrease in the bond yields will increase the defined benefit retirement schemes obligations and vice versa. As the bond yields have been volatile in recent years, the discount rate has changed significantly.

- Inflation risk: pension in payment or in deferment may be increased once a year to reflect all or part of the cost-of-living increases in Hong Kong. The higher-than-expected increases in pensions will increase the defined benefit retirement schemes obligations and vice versa.

- Longevity risk: the defined benefit retirement schemes obligations are calculated by reference to the best estimate of the mortality of members after their employment. A decrease in mortality (i.e. improvement in life expectancy) will increase the defined benefit retirement schemes obligations.

34 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

iii. Movements in the present value of the defined benefit retirement schemes obligations are as follows:

In HK$ million	2017	**2018**
Beginning of year	317	**292**
Interest cost	4	**6**
Remeasurements		
Experience losses	6	**4**
(Gain)/Loss from change in financial and/or demographic assumptions	(19)	**4**
Benefits paid	(16)	**(16)**
End of year	292	**290**

iv. Movements in the fair value of scheme assets are as follows:

In HK$ million	2017	**2018**
Beginning of year	163	**187**
Contribution from employers	13	**2**
Interest income on scheme assets	2	**4**
Return on scheme assets greater/(less) than discount rate	25	**(22)**
Benefits paid	(16)	**(16)**
End of year	187	**155**

v. Pension cost for defined benefit retirement schemes recognized in the consolidated income statement is as follows:

In HK$ million	2017	**2018**
Net interest cost on net defined benefit retirement schemes liability	2	**2**
Total included in General and administrative expenses – retirement costs for other staff	2	**2**

vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows:

	2017	**2018**
Discount rate	2.00%	**2.10%**
Pension increase rate	3.00%	**3.00%**

Based on the Hong Kong Life Tables released by the Government and upon observing the past experience of the DB Schemes, the Group adopted the Hong Kong Life Tables 2016 with a 3-year age set forward for the year ended December 31, 2017 and the Hong Kong Life Tables 2017 with a 3-year age set forward for the year ended December 31, 2018.

34 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

vi. The significant actuarial assumptions used (expressed as weighted averages) are as follows: *(continued)*

The sensitivity of the defined benefit retirement schemes obligations to changes in the weighted principal assumptions is:

		Impact on defined benefit retirement schemes obligations			
		2017		**2018**	
	Change in assumption	Increase in assumption	Decrease in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.25%**	(3.00%)	3.10%	**(2.90%)**	**3.00%**
Pension increase rate	**0.25%**	3.00%	n/a*	**2.90%**	**n/a***
Mortality	**1 year**	(4.80%)**	4.90%**	**(4.80%)****	**4.90%****

* Certain pension payments of the DB Schemes are subject to a minimum pension increase rate of 3.00% per annum taking into account inflation and other market factors.

** Increase in assumption means the Hong Kong Life Tables with a 4-year age set forward, whereas decrease in assumption means the Hong Kong Life Tables with a 2-year age set forward. The Hong Kong Life Tables 2016 are used for 2017 obligation and the Hong Kong Life Tables 2017 are used for 2018 obligation.

The above sensitivity analyzes are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit retirement schemes obligations to significant actuarial assumptions, the same method (the projected unit credit method used to calculate the present value of defined benefit retirement schemes obligations at the end of the reporting period) has been applied as when calculating the pension liability recognized in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

vii. Expected maturity analysis of undiscounted payments of defined benefit retirement schemes as at December 31, 2017 and 2018 is as follows:

In HK$ million			2017		
	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total
Undiscounted payments of defined benefit retirement schemes	15	16	47	303	381

In HK$ million			**2018**		
	Within 1 year	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total**
Undiscounted payments of defined benefit retirement schemes	**16**	**16**	**48**	**299**	**379**

34 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

b. Defined contribution retirement schemes

The Group also operates defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a current cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately upon the completion of the services in the relevant service period.

Forfeited contributions totaling approximately HK$23 million (2017: approximately HK$21 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.

35 SHARE-BASED PAYMENT TRANSACTIONS

The Group operates the following share option schemes and share award schemes:

Share option schemes

- Share option scheme of the Company adopted on May 8, 2014 (the "2014 Scheme").
- Share Stapled Units option scheme of HKT Trust and HKT conditionally adopted on November 7, 2011 (the "HKT 2011-2021 Option Scheme").
- Share option scheme of PCPD adopted on May 6, 2015 (the "2015 PCPD Scheme").

Share award schemes

- Share award schemes of the Company namely the Purchase Scheme and the Subscription Scheme (collectively the "PCCW Share Award Schemes").
- Share Stapled Units award schemes of HKT namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "HKT Share Stapled Units Award Schemes").

The details of these schemes are disclosed under section "Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries" in the Report of the Directors of the Company's 2018 Annual Report.

Except for as disclosed above, PCPD has entered into other share-based payment transactions, please refer to note 35(c) for details.

a. Share option schemes

No share options/Share Stapled Unit options have been granted under the 2014 Scheme, the HKT 2011-2021 Option Scheme and the 2015 PCPD Scheme since their adoption and up to and including December 31, 2018.

35 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes

Subject to the relevant scheme rules of the PCCW Share Award Schemes and the HKT 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 the Company and its participating companies for the PCCW Share Award Schemes, and any director or employee of HKT or any of its subsidiaries for the HKT 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 the Company, HKT, 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 Share Award Schemes and the HKT Share Stapled Units Purchase Scheme of HK$96 million (2017: HK$78 million) were recognized in the consolidated income statement, HK$83 million (2017: HK$67 million) were recognized in the employee share-based compensation reserve and HK$13 million (2017: HK$11 million) were recognized in non-controlling interest.

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.

i. Movements in the number of PCCW Shares and Share Stapled Units held under the PCCW Share Award Schemes and the HKT Share Stapled Units Award Schemes

	Number of PCCW Shares		Number of Share Stapled Units	
	2017	**2018**	2017	**2018**
PCCW Share Award Schemes – Purchase Scheme:				
Beginning of year	4,065,694	**2,419,685**	338,170	**552,986**
Purchase from market by the trustee at weighted average market price of HK$4.53 (2017: HK$4.78) per PCCW Share/HK$9.90 (2017: HK$10.37) per Share Stapled Unit	3,441,000	**5,636,000**	839,000	**910,000**
PCCW Shares/Share Stapled Units vested	(5,087,009)	**(7,649,601)**	(624,184)	**(1,273,854)**
End of year	2,419,685	**406,084**	552,986	**189,132**
PCCW Share Award Schemes – Subscription Scheme:				
Beginning of year	13,450,426	**10,060,881**	–	**–**
PCCW Shares vested	(3,389,545)	**(3,629,706)**	–	**–**
End of year	10,060,881	**6,431,175**	–	**–**
HKT Share Stapled Units Purchase Scheme:				
Beginning of year			5,197,383	**1,089,787**
Purchase from 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**

(Amount expressed in Hong Kong dollars unless otherwise stated)

35 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes *(continued)*

ii. Movements in the number of unvested PCCW Shares and Share Stapled Units and their related weighted average fair value on the date of award

			2017 Number of PCCW Shares				
Date of award	Vesting period	Fair value on the date of award HK$	At January 1, 2017	Awarded	Forfeited	Vested	At December 31, 2017
PCCW Share Award Schemes – Purchase Scheme (PCCW Shares)							
July 5, 2013	July 5, 2013 to July 8, 2017	3.61	1,211,000	–	–	(1,211,000)	–
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	1,748,462	–	–	(1,748,462)	–
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	612,809	–	–	(612,809)	–
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	904,078	–	(331,056)	–	573,022
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	1,514,738	–	–	(1,514,738)	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,514,736	–	–	–	1,514,736
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	2,501,505	(348,366)	–	2,153,139
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	2,822,598	(348,366)	–	2,474,232
Total			7,505,823	5,324,103	(1,027,788)	(5,087,009)	6,715,129
Weighted average fair value on the date of award (HK$)			4.94	4.60	4.73	4.85	4.77
PCCW Share Award Schemes – Subscription Scheme (PCCW Shares)							
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	1,719,186	–	(80,832)	(1,638,354)	–
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	1,788,946	–	(39,277)	(1,749,669)	–
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,787,499	–	(105,004)	–	1,682,495
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	1,522	–	–	(1,522)	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	–	–	–	1,522
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	2,082,499	(90,053)	–	1,992,446
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	2,080,974	(89,939)	–	1,991,035
Total			5,298,675	4,163,473	(405,105)	(3,389,545)	5,667,498
Weighted average fair value on the date of award (HK$)			5.12	4.60	4.90	5.17	4.72

35 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes *(continued)*

ii. 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)*

			2017 Number of Share Stapled Units				
Date of award	Vesting period	Fair value on the date of award HK$	At January 1, 2017	Awarded	Forfeited	Vested	At December 31, 2017
PCCW Share Award Schemes – Purchase Scheme (Share Stapled Units)							
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	81,145	–	(4,895)	(76,250)	–
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	6,581	–	–	(6,581)	–
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	292,416	–	(7,405)	(285,011)	–
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	291,957	–	(20,934)	–	271,023
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	256,342	–	–	(256,342)	–
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	256,341	–	–	–	256,341
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	733,003	(20,066)	–	712,937
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	732,450	(20,008)	–	712,442
Total			1,184,782	1,465,453	(73,308)	(624,184)	1,952,743
Weighted average fair value on the date of award (HK$)			10.80	10.04	10.23	10.70	10.28
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	2,881,371	–	(33,202)	(2,848,169)	–
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	1,215	–	(333)	(882)	–
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	749,315	–	(7,148)	(742,167)	–
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	640,488	–	(10,297)	(630,191)	–
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	639,494	–	(26,336)	–	613,158
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	426,187	–	–	(426,187)	–
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	426,187	–	–	–	426,187
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	1,196,587	(20,998)	–	1,175,589
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	1,195,573	(20,945)	–	1,174,628
Total			5,764,257	2,392,160	(119,259)	(4,647,596)	3,389,562
Weighted average fair value on the date of award (HK$)			9.93	10.04	10.01	9.72	10.30

(Amount expressed in Hong Kong dollars unless otherwise stated)

35 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes *(continued)*

ii. 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)*

Date of award	Vesting period	Fair value on the date of award HK$	2018 Number of PCCW Shares 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	573,022	–	–	(573,022)	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,514,736	–	–	(1,514,736)	–
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	2,153,139	–	–	(2,153,139)	–
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	2,474,232	–	–	(664,338)*	1,809,894
March 7, 2018	March 7, 2018 to April 3, 2018	4.50	–	100,447	–	(100,447)	–
March 7, 2018	March 7, 2018 to April 3, 2019	4.50	–	100,446	–	–	100,446
March 26, 2018	March 26, 2018 to April 3, 2018	4.52	–	1,305,804	–	(1,305,804)	–
March 26, 2018	March 26, 2018 to April 3, 2019	4.52	–	1,305,804	–	–	1,305,804
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	–	1,990,968	(2,444)	(669,058)*	1,319,466
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	–	2,349,324	(2,444)	(669,057)*	1,677,823
April 19, 2018	April 19, 2018 to April 10, 2019	4.80	–	723,800	–	–	723,800
April 19, 2018	April 19, 2018 to April 10, 2020	4.80	–	723,799	–	–	723,799
Total			6,715,129	8,600,392	(4,888)	(7,649,601)	7,661,032
Weighted average fair value on the date of award (HK$)			4.77	4.64	4.66	4.75	4.65
PCCW Share Award Schemes – Subscription Scheme (PCCW Shares)							
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,682,495	–	(23,845)	(1,658,650)	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	–	–	(1,522)	–
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	1,992,446	–	(28,097)	(1,964,349)	–
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	1,991,035	–	(159,891)	(1,683)*	1,829,461
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	–	2,055,115	(119,366)	(1,751)*	1,933,998
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	–	2,053,575	(119,226)	(1,751)*	1,932,598
Total			5,667,498	4,108,690	(450,425)	(3,629,706)	5,696,057
Weighted average fair value on the date of award (HK$)			4.72	4.66	4.65	4.79	4.64

35 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes *(continued)*

ii. 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 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 (Share Stapled Units)							
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	**271,023**	**–**	**(4,784)**	**(266,239)**	**–**
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	**256,341**	**–**	**–**	**(256,341)**	**–**
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	**712,937**	**–**	**(6,799)**	**(706,138)**	**–**
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	**712,442**	**–**	**(41,625)**	**–**	**670,817**
March 7, 2018	March 7, 2018 to April 3, 2018	9.71	**–**	**45,136**	**–**	**(45,136)**	**–**
March 7, 2018	March 7, 2018 to April 3, 2019	9.71	**–**	**45,135**	**–**	**–**	**45,135**
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	**–**	**628,644**	**(22,821)**	**–**	**605,823**
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	**–**	**628,125**	**(22,757)**	**–**	**605,368**
Total			**1,952,743**	**1,347,040**	**(98,786)**	**(1,273,854)**	**1,927,143**
Weighted average fair value on the date of award (HK$)			**10.28**	**9.92**	**10.03**	**10.40**	**9.97**
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)							
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	**613,158**	**–**	**(5,951)**	**(607,207)**	**–**
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	**426,187**	**–**	**–**	**(426,187)**	**–**
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	**1,175,589**	**–**	**(6,013)**	**(1,169,576)**	**–**
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	**1,174,628**	**–**	**(31,184)**	**(303,277)***	**840,167**
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	**–**	**1,247,635**	**(32,829)**	**(310,648)***	**904,158**
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	**–**	**1,246,543**	**(32,757)**	**(310,647)***	**903,139**
May 4, 2018	May 4, 2018 to April 10, 2019	10.40	**–**	**100,000**	**–**	**–**	**100,000**
May 4, 2018	May 4, 2018 to April 10, 2020	10.40	**–**	**100,000**	**–**	**–**	**100,000**
October 5, 2018	October 5, 2018 to October 5, 2019	10.34	**–**	**15,000**	**–**	**–**	**15,000**
October 5, 2018	October 5, 2018 to October 5, 2020	10.34	**–**	**15,000**	**–**	**–**	**15,000**
November 5, 2018	November 5, 2018 to November 5, 2019	10.66	**–**	**15,000**	**–**	**–**	**15,000**
November 5, 2018	November 5, 2018 to November 5, 2020	10.66	**–**	**15,000**	**–**	**–**	**15,000**
Total			**3,389,562**	**2,754,178**	**(108,734)**	**(3,127,542)**	**2,907,464**
Weighted average fair value on the date of award (HK$)			**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.

(Amount expressed in Hong Kong dollars unless otherwise stated)

35 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

b. Share award schemes *(continued)*

ii. 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)	0.62 year	**0.58 year**
PCCW Share Award Schemes – Subscription Scheme (PCCW Shares)	0.61 year	**0.61 year**
PCCW Share Award Schemes – Purchase Scheme (Share Stapled Units)	0.62 year	**0.58 year**
HKT Share Stapled Units Purchase Scheme (Share Stapled Units)	0.60 year	**0.64 year**

c. Share-based payment transactions with cash alternatives of PCPD

i. On May 23, 2013, the PCPD Group entered into the supporting agreement with an affiliated company of the seller of a plot of land in Jakarta, Indonesia (the "Supporter") under which the PCPD Group will settle part of the supporting services received for the value of US$23 million (subject to certain downward adjustments) by means of issuing non-voting, non-contributory but dividend participating class B shares that represent not more than 6.388% (subject to certain downward adjustments) of the share capital in an indirect wholly-owned subsidiary of PCPD ("Melati") (the "Supporter Shares") and by assignment of the shareholder's loan to Melati (the "Supporter Shareholder's Loans").

In addition, the PCPD Group granted to the Supporter a right (but not an obligation) to require the PCPD Group, after the expiry of 5 years from the date on which the Supporter Shares are issued and the Supporter Shareholder's Loans assigned, to purchase from the Supporter all (but not part) of the Supporter Shares and to take assignment of all the then outstanding Supporter Shareholder's Loans (the "Supporter Put Option"). The Supporter Put Option is granted at no premium.

When the consolidated net asset value of Melati is positive, the Supporter Shareholder's Loans are to be assigned at the face amount and the Supporter Shares are to be issued at its corresponding portion of the consolidated net asset value of Melati; or when the consolidated net asset value of Melati is negative, the Supporter Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Melati, and the Supporter Shares are to be issued at nominal value of US$1.

A financial liability would be recognized in the consolidated statement of financial position in relation to the Supporter Put Option until the exercise of the Supporter Put Option by the Supporter. PCPD management considered the fair value of the Supporter Shares is positively correlated to the consolidated net asset value of Melati which is minimal as at December 31, 2018, therefore the fair value of the Supporter Shares is nil (2017: nil).

35 SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

c. Share-based payment transactions with cash alternatives of PCPD *(continued)*

ii. On May 23, 2013, the PCPD Group entered into the investor subscription agreement and the investor loan purchase agreement with an independent third party (the "Investor"), the PCPD Group will allot to the Investor 9.99% shares of an indirect wholly-owned subsidiary of PCPD ("Rafflesia") (the "Investor Shares") and assign to the Investor 9.99% of all the unsecured and non-interest bearing shareholder's loan to Rafflesia (the "Investor Shareholder's Loans") at the time when the occupation permit of the premium Grade A office building in Jakarta, Indonesia is issued. This arrangement will allow the Investor to have 9.99% of the PCPD Group's Indonesian development project at a consideration of an amount which represents the same percentage (9.99%) of the total investment cost incurred by the PCPD Group in the Indonesian development project plus finance charge from the completion date of the land acquisition to the time the shares are subscribed.

In addition, the PCPD Group granted to the Investor a right (but not an obligation) to require the PCPD Group, at any time on or after May 23, 2023, to purchase from the Investor all (but not part) of the Investor Shares and to take assignment of all the then outstanding Investor Shareholder's Loans (the "Investor Put Option"). The Investor Put Option enables a structure which allows the Investor to realize its investment and prevents unknown parties from becoming a stakeholder in Rafflesia, so far as practicable. The Investor Put Option is granted at no premium.

When the consolidated net asset value of Rafflesia is positive, Investor Shareholder's Loans are to be assigned at the face amount and the Investor Shares are to be issued at its corresponding portion of the consolidated net asset value of Rafflesia; or when the consolidated net asset value of Rafflesia is negative, the Investor Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Rafflesia (in case of any shortfall after the deduction), the Investor is required to settle the shortfall. The Investor Shares are to be issued at nominal value of US$1.

PCPD management considered the fair value of the Investor Shares is positively correlated to the consolidated net asset value of Rafflesia which is minimal as at December 31, 2018, therefore the fair value of the Investor Shares is nil (2017: nil).

36 RESERVES

In HK$ million	Special capital reserve *(note (a))*	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	AFS financial assets reserve	Other reserves	(Accumulated losses)/ Retained profits	Total
					2017 (Restated#)				
THE GROUP									
At January 1, 2017 as originally presented	918	(18)	81	(1,085)	422	278	(113)	(1,411)	(928)
Changes in accounting policies#	–	–	–	–	–	–	–	(639)	(639)
At January 1, 2017 (restated#)	918	(18)	81	(1,085)	422	278	(113)	(2,050)	(1,567)
Total comprehensive income/(loss) for the year									
Profit for the year	–	–	–	–	–	–	–	2,038	2,038
Other comprehensive income/(loss)									
Items that will not be reclassified subsequently to consolidated income statement:									
Remeasurements of defined benefit retirement schemes obligations	–	–	–	–	–	–	–	38	38
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:									
Translation exchange differences:									
– exchange differences on translating foreign operations	–	–	–	235	–	–	–	–	235
– reclassification of currency translation reserve on disposal of subsidiaries	–	–	–	172	–	–	–	–	172
AFS financial assets:									
– changes in fair value	–	–	–	–	–	106	–	–	106
– transfer to consolidated income statement on disposal	–	–	–	–	–	(9)	–	–	(9)
Cash flow hedges:									
– effective portion of changes in fair value	–	–	–	–	(222)	–	–	–	(222)
– transfer from equity to consolidated income statement	–	–	–	–	(181)	–	–	–	(181)
Total comprehensive income/(loss) for the year	–	–	–	407	(403)	97	–	2,076	2,177
Transactions with equity holders									
Purchases of PCCW Shares under share award scheme	–	(16)	–	–	–	–	–	–	(16)
Purchases of Share Stapled Units under share award schemes	–	–	–	–	–	–	–	(10)	(10)
Employee share-based compensation	–	–	67	–	–	–	–	–	67
Vesting of PCCW Shares and Share Stapled Units under share award schemes	–	25	(66)	–	–	–	–	34	(7)
Distribution for Share Stapled Units granted under share award schemes	–	–	(2)	–	–	–	–	(1)	(3)
Dividend paid in respect of previous year	(918)	–	(4)	–	–	–	–	(635)	(1,557)
Dividend declared and paid in respect of the current year	–	–	(1)	–	–	–	–	(661)	(662)
Total contributions by and distributions to equity holders	(918)	9	(6)	–	–	–	–	(1,273)	(2,188)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	–	–	–	–	–	7,814	7,814
Total transactions with equity holders	(918)	9	(6)	–	–	–	–	6,541	5,626
At December 31, 2017	–	(9)	75	(678)	19	375	(113)	6,567	6,236

See note 4 for details regarding the restatement as a result of changes in accounting policies.

36 RESERVES *(CONTINUED)*

In HK$ million	Special capital reserve *(note (a))*	Employee share-based compensation reserve	2017 Hedging reserve	Retained profits	Total
THE COMPANY					
At January 1, 2017	901	20	45	17,954	18,920
Total comprehensive income for the year					
Profit for the year	–	–	–	2,269	2,269
Other comprehensive income					
Items that have been reclassified or may be reclassified subsequently to income statement:					
Cash flow hedges:					
– effective portion of changes in fair value	–	–	(57)	–	(57)
Total comprehensive income for the year	–	–	(57)	2,269	2,212
Transactions with equity holders					
Dividend paid in respect of previous year	(901)	–	–	(656)	(1,557)
Dividend declared and paid in respect of the current year	–	–	–	(662)	(662)
Total transactions with equity holders	(901)	–	–	(1,318)	(2,219)
At December 31, 2017	–	20	(12)	18,905	18,913

36 RESERVES *(CONTINUED)*

In HK$ million	2018									
	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Costs of hedging reserve	AFS financial assets reserve	Financial assets at FVOCI reserve	Other reserves	Retained profits	Total
THE GROUP										
At December 31, 2017 as originally presented	(9)	75	(679)	19	–	375	–	(113)	7,319	6,987
Changes in accounting policies#	–	–	1	–	–	–	–	–	(752)	(751)
At December 31, 2017 (restated#)	(9)	75	(678)	19	–	375	–	(113)	6,567	6,236
Changes in accounting policies#	–	–	–	182	(138)	(375)	163	–	168	–
At January 1, 2018 (restated#)	(9)	75	(678)	201	(138)	–	163	(113)	6,735	6,236
Total comprehensive income/(loss) for the year										
Profit for the year	–	–	–	–	–	–	–	–	897	897
Other comprehensive income/(loss)										
Items that will not be reclassified subsequently to consolidated income statement:										
Remeasurements of defined benefit retirement schemes obligations	–	–	–	–	–	–	–	–	(30)	(30)
Changes in the fair value of equity instruments at FVOCI	–	–	–	–	–	–	(81)	–	–	(81)
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:										
Translation exchange differences:										
– exchange differences on translating foreign operations	–	–	(299)	–	–	–	–	–	–	(299)
Cash flow hedges:										
– effective portion of changes in fair value	–	–	–	(106)	–	–	–	–	–	(106)
– transfer from equity to consolidated income statement	–	–	–	17	–	–	–	–	–	17
Costs of hedging	–	–	–	–	27	–	–	–	–	27
Total comprehensive income/(loss) for the year	–	–	(299)	(89)	27	–	(81)	–	867	425
Transactions with equity holders										
Purchases of PCCW Shares under share award scheme	(26)	–	–	–	–	–	–	–	–	(26)
Purchases of Share Stapled Units under share award schemes	–	–	–	–	–	–	–	–	(20)	(20)
Employee share-based compensation	–	83	–	–	–	–	–	–	–	83
Vesting of PCCW Shares and Share Stapled Units under share award schemes	33	(79)	–	–	–	–	–	–	37	(9)
Distribution for Share Stapled Units granted under share award schemes	–	(2)	–	–	–	–	–	–	–	(2)
Dividend paid in respect of previous year	–	(2)	–	–	–	–	–	–	(1,633)	(1,635)
Dividend declared and paid in respect of the current year	–	(1)	–	–	–	–	–	–	(687)	(688)
Total contributions by and distributions to equity holders	7	(1)	–	–	–	–	–	–	(2,303)	(2,297)
Acquisition of subsidiaries	–	–	–	–	–	–	–	(223)	–	(223)
Total changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	–	–	–	–	–	(223)	–	(223)
Total transactions with equity holders	7	(1)	–	–	–	–	–	(223)	(2,303)	(2,520)
At December 31, 2018	(2)	74	(977)	112	(111)	–	82	(336)	5,299	4,141

See note 4 for details regarding the restatement as a result of changes in accounting policies.

36 RESERVES *(CONTINUED)*

In HK$ million	2018				
	Employee share-based compensation reserve	Hedging reserve	Costs of hedging reserve	Retained profits	Total
THE COMPANY					
At December 31, 2017 as originally presented	20	(12)	–	18,905	18,913
Changes in accounting policies#	–	52	(31)	(21)	–
At January 1, 2018 (restated)	20	40	(31)	18,884	18,913
Total comprehensive income for the year					
Profit for the year	–	–	–	2,543	2,543
Other comprehensive income					
Items that have been reclassified or may be reclassified subsequently to income statement:					
Cash flow hedges:					
– effective portion of changes in fair value	–	(37)	–	–	(37)
Costs of hedging	–	–	8	–	8
Total comprehensive income for the year	–	(37)	8	2,543	2,514
Transactions with equity holders					
Dividend paid in respect of previous year	–	–	–	(1,635)	(1,635)
Dividend declared and paid in respect of the current year	–	–	–	(688)	(688)
Total transactions with equity holders	–	–	–	(2,323)	(2,323)
At December 31, 2018	20	3	(23)	19,104	19,104

See note 4 for details regarding the restatement as a result of changes in accounting policies.

36 RESERVES *(CONTINUED)*

a. The special capital reserve was created as a result of a capital reduction in 2004 where the Company applied its entire share premium balance to eliminate accumulated losses as at June 30, 2004. The special capital reserve was not treated as realized profit and (for so long as the Company remains a listed company) was treated as an undistributable reserve for the purposes of section 79C of the predecessor Hong Kong Companies Ordinance (Cap. 32).

On January 10, 2006, the High Court of Hong Kong (the "High Court") made an order which permitted the Company to distribute dividend out of the special capital reserve providing that the Company setting aside sums totaling approximately US$544 million (approximately HK$4,243 million) and HK$106 million for the sole purpose of discharging certain debts or liabilities of the Company existing at the date of the capital reduction, principally being the aggregate amount of principal, accrued interest and redemption premium payable on maturity of the US$450 million 1% guaranteed convertible bonds due 2007 issued by PCCW Capital No. 2 Limited (dissolved on December 19, 2013). Those amounts were set aside by then, and the High Court order thereby became effective, on March 27, 2006.

As at December 31, 2017 and 2018, the special capital reserve has been fully distributed as dividend in accordance with the above. The Company had total distributable reserves of HK$19,104 million as at December 31, 2018 (2017: HK$18,905 million).

As at December 31, 2017 and 2018, there was no cash set aside and recorded under restricted cash in the statement of financial position of the Company in this regard.

37 DEFERRED INCOME TAX

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

In HK$ million	2017 (Restated)					
	Accelerated tax depreciation and amortization	Valuation adjustment resulting from acquisition of subsidiaries	Revaluation of properties	Tax losses	Others	Total
Beginning of year	2,708	271	(1)	(1,221)	–	1,757
Charged/(Credited) to the consolidated income statement *(note 13(a))*	433	(36)	–	(157)	–	240
Exchange differences	–	2	–	(6)	–	(4)
End of year	3,141	237	(1)	(1,384)	–	1,993

In HK$ million	**2018**					
	Accelerated tax depreciation and amortization	**Valuation adjustment resulting from acquisition of subsidiaries**	**Revaluation of properties**	**Tax losses**	**Others**	**Total**
Beginning of year	**3,141**	**237**	**(1)**	**(1,384)**	**–**	**1,993**
Charged/(Credited) to the consolidated income statement *(note 13(a))*	**543**	**(35)**	**1**	**(24)**	**1**	**486**
Additions upon business combinations	**6**	**–**	**–**	**–**	**–**	**6**
Disposal of interests in subsidiaries *(note 46)*	**(2)**	**–**	**–**	**–**	**–**	**(2)**
Exchange differences	**2**	**–**	**–**	**(5)**	**–**	**(3)**
End of year	**3,690**	**202**	**–**	**(1,413)**	**1**	**2,480**

37 DEFERRED INCOME TAX *(CONTINUED)*

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	(1,119)	**(1,121)**
– to be recovered within 12 months	(96)	**(73)**
Net deferred income tax assets recognized in the consolidated statement of financial position	(1,215)	**(1,194)**
Deferred income tax liabilities:		
– to be recovered after more than 12 months	3,005	**3,299**
– to be recovered within 12 months	203	**375**
Net deferred income tax liabilities recognized in the consolidated statement of financial position	3,208	**3,674**
	1,993	**2,480**

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 Group had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$9,295 million (2017: HK$7,354 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$87 million (2017: HK$81 million) and HK$475 million (2017: HK$447 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.

38 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2018, the Group had carrier licence fee liabilities payable as follows:

In HK$ million	2017			**2018**		
	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**

39 OTHER LONG-TERM LIABILITIES

a. OTT Preference Shares

As at December 31, 2018, other long-term liabilities included a liability of HK$823 million (2017: HK$811 million) arising from the issuance of the OTT Preference Shares during the year ended December 31, 2017 as described below.

On September 25, 2017, the Group issued and allotted to three investors an aggregate of 11,000,000 series A convertible redeemable voting preference shares of a par value of US$1.00 each (the "OTT Preference Shares") in the capital of a then indirect wholly-owned subsidiary of the Company, representing approximately 18% of its enlarged issued share capital, for a total consideration of US$110 million (equivalent to approximately HK$859 million). The OTT Preference Shares are redeemable at the original subscription price, at the earliest on September 25, 2022, if certain contingent event has not occurred by then. The OTT Preference Shares are entitled to discretionary dividends and also have certain preference in liquidation or upon an initial public offering or sale of business.

The OTT Preference Shares contain a liability and an equity component, and are accordingly treated as a compound financial instrument. The liability component further contains embedded derivatives ("OTT Preference Shares Derivative"), which are accounted for as derivative financial instruments in accordance with the accounting policy set out in note 2(q), and a host liability ("OTT Preference Shares Liability"), which is recorded as other long-term liabilities in the consolidated statement of financial position on an amortized cost basis until being extinguished on conversion or redemption. The valuation of the OTT Preference Shares Derivative and the OTT Preference Shares Liability on the date of issuance of the OTT Preference Shares was HK$33 million and HK$808 million respectively.

The subsidiary also granted an option ("OTT Preference Shares Option") to one of the investors to subscribe for up to a further 2,000,000 OTT Preference Shares at an exercise price of US$10.00 per option share. The OTT Preference Shares Option is exercisable on or before the option expiry date within nine months of the issuance of the OTT Preference Shares. Accordingly, the Group recognized a derivative financial instrument of HK$18 million, in accordance with the accounting policy set out in note 2(q), on the date of issuance of the OTT Preference Shares. The OTT Preference Shares Option has lapsed without being exercised during the year ended December 31, 2018.

During the year ended December 31, 2018, the Group has recognized a finance cost on the OTT Preference Shares Liability of HK$10 million (2017: HK$3 million), and fair value gains of an immaterial amount (2017: HK$4 million) and HK$15 million (2017: HK$3 million) on the OTT Preference Shares Derivative, and the OTT Preference Shares Option in other gains/(losses), net in the consolidated income statement, respectively.

Refer to note 32 for details of the derivative financial instruments.

b. Put option arrangement

As at December 31, 2018, other long-term liabilities included a liability of HK$223 million (2017: nil) arising from the put option written for the acquisition of Jumbo Fame Global Limited and its subsidiaries. Refer to note 47(a)(v) for details of the put option.

The present value of the amount that could become payable upon the exercise of the put option is initially recognized as other long-term liabilities with a corresponding charge directly to other reserve. The liability is subsequently accreted up to the amount that could become payable at the date at which the put option first become exercisable. In the event that the put option expires unexercised, the liability is derecognized with a corresponding adjustment to equity.

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	2017 (Restated)	**2018**
Profit before income tax*	5,288	**4,184**
Adjustment for:		
Interest income	(133)	**(134)**
Finance costs	1,636	**1,899**
Gain on disposal of subsidiaries	(1,236)	**(276)**
Fair value gains on financial assets at FVPL	–	**(300)**
Fair value movement of derivative financial instruments	(1)	**(15)**
Net realized gains on disposal of AFS financial assets	(68)	**–**
Dividend income from AFS financial assets	(38)	**–**
Dividend income from financial assets at FVOCI	–	**(44)**
Dividend income from financial assets at FVPL	–	**(1)**
Provision for impairment of interests in associates	154	**–**
(Reversal of)/provision for impairment of interests in joint ventures	(5)	**2**
Loss on disposal of property, plant and equipment and right-of-use assets, net	12	**6**
Impairment loss for trade receivables	288	**251**
Provision for inventory obsolescence	16	**10**
Depreciation of property, plant and equipment	1,642	**1,588**
Depreciation of right-of-use assets	1,899	**1,922**
Amortization of land lease premium – interests in leasehold land	18	**18**
Amortization of intangible assets	1,874	**1,996**
Amortization of fulfillment costs	427	**422**
Amortization of customer acquisition costs	977	**1,045**
Share of results of associates and joint ventures	(54)	**(68)**
Increase in treasury stock for the purchases of PCCW Shares under share award scheme	(16)	**(26)**
Decrease in equity for the purchases of Share Stapled Units under share award schemes	(14)	**(30)**
Share-based compensation expenses	78	**96**
Pension cost for defined benefit retirement schemes	2	**2**
(Increase)/Decrease in operating assets		
– properties held for/under development	(190)	**(2,559)**
– fulfillment costs	(427)	**(413)**
– customer acquisition costs	(910)	**(1,055)**
– contract assets	(19)	**451**
– other non-current assets	(122)	**(230)**
– sales proceeds held in stakeholders' accounts	2	**1**
– inventories	26	**(378)**
– trade receivables, prepayments, deposits and other current assets	(257)	**(683)**
– amounts due from related companies	13	**2**
– restricted cash	(10)	**(33)**
(Decrease)/Increase in operating liabilities		
– trade payables, accruals and other payables and deferred income	(40)	**(918)**
– amount payable to the Government under the Cyberport Project Agreement	–	**1**
– amounts due to related companies	(34)	**–**
– advances from customers	(48)	**102**
– contract liabilities	304	**302**
– defined benefit retirement schemes liability	(13)	**(2)**
– other long-term liabilities	(8)	**60**
CASH GENERATED FROM OPERATIONS	11,013	**7,195**
Interest received	85	**116**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(696)	**(695)**
– overseas profits tax paid	(86)	**(71)**
NET CASH GENERATED FROM OPERATING ACTIVITIES	10,316	**6,545**

* Profit before income tax included results from both continuing and discontinued operations.

40 NOTES TO THE CONSOLIDATED STATEMENT 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	2017 (Restated)							
	Restricted cash	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Lease liabilities	Borrowings	Derivative financial instruments, net	OTT Preference Shares Liability (included in other long-term liabilities)	Total
As at January 1, 2017	(139)	(70)	214	3,888	45,588	(191)	–	49,290
Cash flows in financing activities								
New borrowings raised, net	–	–	–	–	10,312	–	–	10,312
Finance costs (paid)/received	–	(7)	(1,017)	–	(172)	33	–	(1,163)
Repayments of borrowings	–	–	–	–	(9,158)	–	–	(9,158)
Payment for lease liabilities (including interest)	–	–	–	(1,978)	–	–	–	(1,978)
Proceeds from issuance of preference shares of a subsidiary	–	–	–	–	–	51	808	859
Classified as cash flows in investing activities								
Purchase of a foreign currency option	–	–	–	–	–	(8)	–	(8)
Loan repayment in relation to licence fee *(note 42(b)(i))*	–	–	–	–	(130)	–	–	(130)
Classified as cash flows in operating activities								
Increase in restricted cash	(10)	–	–	–	–	–	–	(10)
Non-cash movements	–	63	1,100	1,541	795	186	3	3,688
As at December 31, 2017	(149)	(14)	297	3,451	47,235	71	811	51,702

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Movements of financial (assets)/liabilities arising from financing activities *(continued)*

In HK$ million	2018							
	Restricted cash	Prepaid finance costs (included in prepayments, deposits and other current assets)	Interest payable (included in accruals and other payables)	Lease liabilities	Borrowings	Derivative financial instruments, net	OTT Preference Shares Liability (included in other long-term liabilities)	Total
As at January 1, 2018	(149)	(14)	297	3,451	47,235	71	811	51,702
Cash flows in financing activities								
New borrowings raised, net	–	–	–	–	15,210	–	–	15,210
Finance costs (paid)/received	–	–	(1,376)	–	–	77	–	(1,299)
Repayments of borrowings	–	–	–	–	(12,543)	–	–	(12,543)
Payment for lease liabilities (including interest)	–	–	–	(2,013)	–	–	–	(2,013)
Increase in restricted cash	(221)	–	–	–	–	–	–	(221)
Classified as cash flows in investing activities								
Purchase of a foreign currency option	–	–	–	–	–	(4)	–	(4)
Loan repayment in relation to licence fee *(note 42(b)(i))*	–	–	–	–	(130)	–	–	(130)
Classified as cash flows in operating activities								
Increase in restricted cash	(33)	–	–	–	–	–	–	(33)
Non-cash movements	–	4	1,438	3,041	143	(37)	12	4,601
As at December 31, 2018	(403)	(10)	359	4,479	49,915	107	823	55,270

c. Analysis of cash and cash equivalents

In HK$ million	2017	**2018**
Total cash and bank balances	13,416	**7,764**
Less: short-term deposits	(1,629)	**(604)**
Less: restricted cash	(149)	**(403)**
Cash and cash equivalents as at December 31,	11,638	**6,757**

41 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("Adjusted Capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises all components of equity.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by the Bermuda Monetary Authority. A subsidiary of the Group also has a minimum capital requirement as a condition for a stored value facilities licence granted by the Hong Kong Monetary Authority.

42 FINANCIAL INSTRUMENTS

The tables below analyze financial instruments by category:

In HK$ million			2017 (Restated)		
	Financial assets at amortized cost	Financial assets at FVPL	Derivatives used for hedging	AFS financial assets	Total
Non-current assets					
AFS financial assets	–	–	–	2,021	2,021
Derivative financial instruments*	–	–	225	–	225
Other non-current assets	137	–	–	–	137
	137	–	225	2,021	2,383
Current assets					
Sale proceeds held in stakeholders' accounts	508	–	–	–	508
Prepayments, deposits and other current assets (excluding prepayments)	2,791	–	–	–	2,791
Trade receivables, net	3,664	–	–	–	3,664
Amounts due from related companies	86	–	–	–	86
Derivative financial instruments	–	1	–	–	1
Other financial assets	–	79	–	–	79
Restricted cash	149	–	–	–	149
Short-term deposits	1,629	–	–	–	1,629
Cash and cash equivalents	11,638	–	–	–	11,638
	20,465	80	–	–	20,545
Total	20,602	80	225	2,021	22,928

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	2017 (Restated) Derivatives used for hedging	Derivatives at FVPL	Other financial liabilities at amortized cost	Total
Current liabilities				
Short-term borrowings	–	–	(622)	(622)
Trade payables	–	–	(2,088)	(2,088)
Accruals and other payables	–	–	(7,511)	(7,511)
Amount payable to the Government under the Cyberport Project Agreement	–	–	(321)	(321)
Derivative financial instruments	–	(15)	–	(15)
Carrier licence fee liabilities	–	–	(173)	(173)
Amounts due to related companies	–	–	(1)	(1)
Lease liabilities	–	–	(1,446)	(1,446)
	–	(15)	(12,162)	(12,177)
Non-current liabilities				
Long-term borrowings	–	–	(46,613)	(46,613)
Derivative financial instruments	(253)	(29)	–	(282)
Carrier licence fee liabilities	–	–	(455)	(455)
Lease liabilities	–	–	(2,005)	(2,005)
Other long-term liabilities	–	–	(1,811)	(1,811)
	(253)	(29)	(50,884)	(51,166)
Total	(253)	(44)	(63,046)	(63,343)

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million			2018		
	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	–	1,102	–	–	1,102
Financial assets at FVPL	–	–	731	–	731
Derivative financial instruments*	–	–	–	152	152
Other non-current assets	146	–	–	–	146
Restricted cash	217	–	–	–	217
	363	1,102	731	152	2,348
Current assets					
Sale proceeds held in stakeholders' accounts	507	–	–	–	507
Prepayments, deposits and other current assets (excluding prepayments)	2,697	–	–	–	2,697
Trade receivables, net	4,799	–	–	–	4,799
Amounts due from related companies	110	–	–	–	110
Derivative financial instruments	–	–	4	–	4
Restricted cash	186	–	–	–	186
Short-term deposits	604	–	–	–	604
Cash and cash equivalents	6,757	–	–	–	6,757
	15,660	–	4	–	15,664
Total	16,023	1,102	735	152	18,012

* As at December 31, 2018, derivative financial instruments of HK$19 million (2017: HK$10 million) related to foreign exchange forward contracts with an aggregate notional contract amount of US$503 million (approximately HK$3,887 million) were designated as cash flow hedges of US$300 million and US$100 million zero coupon guaranteed notes due 2030 respectively. The US$300 million guaranteed notes and the US$100 million guaranteed notes may be redeemed at the option of the Group on January 15, 2020 and May 20, 2020 at an early redemption amount of approximately US$376 million and US$128 million respectively. Refer to notes 30(c), 30(f) and 32(a) for details of the guaranteed notes and the foreign exchange forward contracts respectively.

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyze financial instruments by category: *(continued)*

In HK$ million	2018			
	Derivatives used for hedging	**Derivatives at FVPL**	**Other financial liabilities at amortized cost**	**Total**
Current liabilities				
Short-term borrowings	–	–	(608)	(608)
Trade payables	–	–	(1,952)	(1,952)
Accruals and other payables	–	–	(6,675)	(6,675)
Amount payable to the Government under the Cyberport Project Agreement	–	–	(322)	(322)
Carrier licence fee liabilities	–	–	(173)	(173)
Amounts due to related companies	–	–	(1)	(1)
Lease liabilities	–	–	(1,608)	(1,608)
	–	–	(11,339)	(11,339)
Non-current liabilities				
Long-term borrowings	–	–	(49,307)	(49,307)
Derivative financial instruments	(234)	(29)	–	(263)
Carrier licence fee liabilities	–	–	(357)	(357)
Lease liabilities	–	–	(2,871)	(2,871)
Other long-term liabilities	–	–	(2,312)	(2,312)
	(234)	(29)	(54,847)	(55,110)
Total	(234)	(29)	(66,186)	(66,449)

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

Exposure to credit, liquidity, and market risk (including foreign currency risk and interest rate risk) arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposure to these risks is controlled by the Group's financial management policies and practices described below.

a. Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalent, trade receivables, contract assets, amounts due from related companies, interest receivable, investments in debt instruments, derivative financial instruments, and other receivables. Management has policies in place and exposure to these credit risks are monitored on an ongoing basis.

The Group's normal credit period for customers is ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue balances are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2017 and 2018, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 29(e).

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 Group 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.

Investments in debt instruments, 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 Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Group as disclosed in note 44, the Group does not provide any other guarantees which would expose the Group to credit risk.

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient cash and committed facilities to fund its operations and debt servicing requirements.

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries in the normal course of their businesses. Refer to note 44 for details.

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

The following tables detail the remaining contractual maturities at the end of the reporting periods of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

In HK$ million	2017 (Restated)					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	(624)	–	–	–	(624)	(622)
Trade payables	(2,088)	–	–	–	(2,088)	(2,088)
Accruals and other payables	(7,511)	–	–	–	(7,511)	(7,511)
Amount payable to the Government under the Cyberport Project Agreement	(321)	–	–	–	(321)	(321)
Derivative financial instruments	–	–	–	–	–	(15)
Carrier licence fee liabilities	(180)	–	–	–	(180)	(173)
Amounts due to related companies	(1)	–	–	–	(1)	(1)
Lease liabilities	(1,455)	–	–	–	(1,455)	(1,446)
	(12,180)	–	–	–	(12,180)	(12,177)
Non-current liabilities						
Long-term borrowings *(note i)*	(1,273)	(10,539)	(21,631)	(22,798)	(56,241)	(46,613)
Derivative financial instruments	2	(16)	(116)	(172)	(302)	(282)
Carrier licence fee liabilities	–	(142)	(332)	(100)	(574)	(455)
Lease liabilities	–	(929)	(908)	(348)	(2,185)	(2,005)
Other long-term liabilities *(note ii)*	(15)	(73)	(912)	(1,264)	(2,264)	(1,811)
	(1,286)	(11,699)	(23,899)	(24,682)	(61,566)	(51,166)
Total	(13,466)	(11,699)	(23,899)	(24,682)	(73,746)	(63,343)

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	2018					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	(611)	–	–	–	(611)	(608)
Trade payables	(1,952)	–	–	–	(1,952)	(1,952)
Accruals and other payables	(6,675)	–	–	–	(6,675)	(6,675)
Amount payable to the Government under the Cyberport Project Agreement	(322)	–	–	–	(322)	(322)
Carrier licence fee liabilities	(180)	–	–	–	(180)	(173)
Amounts due to related companies	(1)	–	–	–	(1)	(1)
Lease liabilities	(1,621)	–	–	–	(1,621)	(1,608)
	(11,362)	–	–	–	(11,362)	(11,339)
Non-current liabilities						
Long-term borrowings *(note i)*	(1,356)	(4,612)	(34,269)	(18,526)	(58,763)	(49,307)
Derivative financial instruments	(18)	(22)	(50)	(173)	(263)	(263)
Carrier licence fee liabilities	–	(142)	(241)	(50)	(433)	(357)
Lease liabilities	–	(1,009)	(1,492)	(655)	(3,156)	(2,871)
Other long-term liabilities *(note ii)*	(13)	(70)	(1,934)	(1,262)	(3,279)	(2,312)
	(1,387)	(5,855)	(37,986)	(20,666)	(65,894)	(55,110)
Total	(12,749)	(5,855)	(37,986)	(20,666)	(77,256)	(66,449)

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 Group.

ii. As at December 31, 2018, other long-term liabilities included HK$232 million (2017: HK$164 million) of long-term interest payable, which relate to interest drawn under an arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with a notional contract amount of EUR200 million (approximately HK$1,665 million) (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 30(e), 30(b) and 32(a) for details of the guaranteed notes and the derivative financial instruments respectively.

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts, interest rate swap contracts, foreign exchange forward contracts, foreign currency options and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire high market risk instruments for trading purposes.

The Group determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

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

In the normal course of business, the Group uses the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

i. Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposure. Foreign currency risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the functional currency of the relevant group entity.

Majority of the Group's borrowings are denominated in the Hong Kong dollars, United States dollars or Euro. As at December 31, 2017 and 2018, majority of the Group's borrowings denominated in United States dollars/Euro were swapped into Hong Kong dollars by cross currency swap contracts and foreign exchange forward contracts. Given this, management does not expect that there will be any significant foreign currency risk associated with the Group's borrowings. Cross currency swap contracts and foreign exchange forward contracts outstanding as at December 31, 2018 with an aggregate notional contract amount of US$2,553 million (approximately HK$19,787 million) (2017: US$2,553 million (approximately HK$19,787 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 Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary to address short-term imbalances.

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from significant monetary assets or liabilities denominated in foreign currencies.

In HK$ million	2017 (Restated)			**2018**		
	United States Dollars	Euro	Chinese Renminbi	**United States Dollars**	**Euro**	**Chinese Renminbi**
Trade receivables	1,708	227	266	**1,497**	**194**	**257**
Amounts due from related companies	–	–	12	**–**	**–**	**21**
Other financial assets	79	–	–	**–**	**–**	**–**
Restricted cash	–	–	–	**–**	**–**	**1**
Short-term deposits	1,017	–	2	**–**	**–**	**–**
Cash and cash equivalents	4,219	130	216	**1,691**	**191**	**249**
Short-term borrowings	–	(622)	–	**–**	**(597)**	**–**
Trade payables	(1,298)	(115)	(102)	**(1,160)**	**(65)**	**(104)**
Lease liabilities	(130)	(13)	(257)	**(151)**	**(8)**	**(172)**
Long-term borrowings	(23,218)	(1,830)	–	**(23,365)**	**(1,761)**	**–**
Gross exposure arising from monetary (liabilities)/assets	(17,623)	(2,223)	137	**(21,488)**	**(2,046)**	**252**
Net monetary assets denominated in respective entities' functional currencies	(967)	(66)	(179)	**(354)**	**(93)**	**(173)**
Borrowings with hedging instruments	18,796	1,830	–	**18,926**	**1,761**	**–**
Overall net exposure	206	(459)	(42)	**(2,916)**	**(378)**	**79**

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

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 Group for the year would have decreased/increased by approximately HK$24 million (2017: increased/decreased by approximately HK$2 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 Group as at December 31, 2018 would have collectively debited/credited by approximately HK$115 million (2017: HK$91 million), mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

As at December 31, 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 Group for the year would have decreased/increased by approximately HK$16 million (2017: HK$19 million), mainly as a result of foreign exchange losses/gains on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve and costs of hedging reserve of the Group as at December 31, 2018 would have collectively debited/credited by approximately HK$46 million (2017: HK$48 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, the profit after tax of the Group for the year would have increased/decreased by approximately HK$3 million (2017 (restated): decreased/increased by approximately HK$2 million).

The sensitivity analysis has been determined assuming that the change in foreign exchange rates occurred as at the end of the reporting period and applied to the Group's exposure to currency risk for monetary assets and liabilities in existence at those dates, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2017 and 2018.

ii. Interest rate risk

Given the relatively insignificant amount of interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit facilities which are denominated in Hong Kong dollars or in other major foreign currencies and pays interest at floating rates.

The Group has entered into fixed-to-floating cross currency swap contracts to manage the fair value interest rate risk arising from certain fixed rate long-term borrowings and floating-to-fixed interest rate swap contracts to hedge the cash flow interest rate risk arising from certain floating rate long-term borrowings.

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period, after taking into account the effect of the cash flow and fair value hedging instruments.

	2017		**2018**	
	Effective interest rate %	HK$ million	**Effective interest rate %**	**HK$ million**
Net fixed rate borrowings:				
Long-term borrowings	4.88	4,422	**4.88**	**4,439**
Long-term borrowings with hedging instruments	3.78	18,408	**3.89**	**18,410**
Long-term bank borrowings with hedging instruments	1.84	1,488	**1.84**	**1,492**
		24,318		**24,341**
Variable rate borrowings:				
Short-term bank borrowings	0.72	622	**0.76**	**608**
Long-term bank borrowings	1.64	20,077	**2.51**	**22,689**
Long-term borrowings with hedging instruments	5.44	2,218	**6.76**	**2,277**
		22,917		**25,574**
Total borrowings		47,235		**49,915**

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 Group's profit after tax for the year would have decreased/increased by approximately HK$108 million (2017: HK$97 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 Group's 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.

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments. Other than unquoted equity securities held for strategic purposes, all of these investments are listed on recognized stock exchange markets. To manage the Group's equity price risk, the portfolio is diversified in accordance with the limits set by the Group.

As at December 31, 2018, the Group's listed equity investments of HK$1,034 million (2017: HK$1,133 million) are listed on Euronext Amsterdam and Tokyo Stock Exchange, Inc..

As at December 31, 2018, if the market price of the listed equity investments had increased/decreased by 5%, with all other variables held constant, the Group's financial assets at FVOCI reserve and other gains/(losses), net would have been increased/decreased by approximately HK$51 million and HK$1 million mainly as a result of fair value gains/losses on the listed equity investments.

Before the adoption of HKFRS 9 (2014), as at December 31, 2017, if the market price of the listed equity investments had increased/decreased by 5%, with all other variables held constant, the Group's AFS financial assets reserve would have been increased/decreased by approximately HK$57 million mainly as a result of fair value gains/losses on the listed equity investments.

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

d. Fair values of financial liabilities measured at amortized cost

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

In HK$ million	2017		**2018**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Long-term borrowings	46,613	47,201	**49,307**	**48,982**

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.

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 Group 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.

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The following tables present the Group's financial assets and liabilities that are measured at fair value as at December 31, 2017 and 2018:

In HK$ million	2017			
	Level 1	Level 2	Level 3	Total
Assets				
AFS financial assets				
– Listed securities	1,133	–	–	1,133
– Unlisted securities	–	–	888	888
Derivative financial instruments (non-current)	–	225	–	225
Derivative financial instruments (current)	–	1	–	1
Other financial assets	–	79	–	79
Total assets	1,133	305	888	2,326
Liabilities				
Contingent consideration payable	–	–	(22)	(22)
Derivative financial instruments (non-current)	–	(253)	(29)	(282)
Derivative financial instruments (current)	–	–	(15)	(15)
Total liabilities	–	(253)	(66)	(319)

In HK$ million	**2018**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at FVOCI (non-current)				
– Listed securities	**1,025**	**–**	**–**	**1,025**
– Unlisted securities	**–**	**–**	**77**	**77**
Financial assets at FVPL (non-current)				
– Listed securities	**9**	**–**	**–**	**9**
– Unlisted securities	**–**	**–**	**722**	**722**
Derivative financial instruments (non-current)	**–**	**152**	**–**	**152**
Derivative financial instruments (current)	**–**	**4**	**–**	**4**
Total assets	**1,034**	**156**	**799**	**1,989**
Liabilities				
Contingent consideration payable	**–**	**–**	**(50)**	**(50)**
Derivative financial instruments (non-current)	**–**	**(234)**	**(29)**	**(263)**
Total liabilities	**–**	**(234)**	**(79)**	**(313)**

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

Instruments included in level 1 comprise primarily equity investments listed on Euronext Amsterdam and Tokyo Stock Exchange, Inc. classified as financial assets at FVOCI and financial assets at FVPL respectively as at December 31, 2018 (2017: AFS financial assets).

Instruments included in level 2 comprise cross currency swap contracts, an interest rate swap contract, foreign currency option and foreign exchange forward contracts classified as derivative financial instruments and an investment in a liquidity fund classified as other financial assets.

Instruments included in level 3 comprise unlisted equity investments in several companies and investments in debt instruments classified as financial assets at FVOCI or financial assets at FVPL, liabilities of contingent considerations for acquisition of subsidiaries classified as accruals and other payables or other long-term liabilities, and the OTT Preference Shares Option and the OTT Preference Shares Derivative classified as derivative financial instruments.

Specific valuation techniques used to value financial instruments include:

– In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

– The fair value of the foreign currency option is determined using the Black-Scholes option pricing model. The model's key inputs include the contractual terms of the contract, along with observable inputs, including spot and forward exchange rates, yield curves and the implied volatility.

– The fair value of the foreign exchange forward contracts is calculated based on the prevailing market foreign currency exchange rates quoted for contracts with the same notional amounts adjusted for maturity differences.

– The fair value of the OTT Preference Shares Derivative is determined using the with and without method, which includes key inputs of the underlying preference share price, a marketability discount and the probability of certain liquidity events.

For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The key assumptions adopted in the valuation models include market multiples and discount rates which are based on historical patterns and industry trends of comparable companies. The fair values of these Level 3 instruments may differ significantly if there are material changes to the underlying assumptions applied in the relevant fair valuation models.

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

i. OTT Preference Shares Derivative

– Underlying OTT Preference Share price: US$10.0 (2017: US$10.0)
– Liquidity discount: 22.0% (2017: 22.0%)

ii. Other unlisted investments

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

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.

42 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The following table presents the changes in level 3 assets/(liabilities) for the years ended December 31, 2017 and 2018:

In HK$ million	2017		
	AFS financial assets – unlisted securities	Derivative financial instruments – OTT Preference Shares Option and OTT Preference Shares Derivative	Contingent consideration payable
Beginning of year	1,045	–	(22)
Additions	32	(51)	–
Disposals	(117)	–	–
Fair value movement recognized in the consolidated income statement	–	7	–
Unrealized fair value loss transferred to equity	(72)	–	–
End of year	888	(44)	(22)

In HK$ million	**2018**				
	Financial assets at FVOCI – unlisted securities	**Financial assets at FVPL – unlisted securities**	**AFS financial assets – unlisted securities**	**Derivative financial instruments – OTT Preference Shares Option and OTT Preference Shares Derivative**	**Contingent consideration payable**
Beginning of year, as originally presented	**–**	**–**	**888**	**(44)**	**(22)**
Changes in accounting policies *(note 4)*	**77**	**811**	**(888)**	**–**	**–**
Beginning of year (restated)	**77**	**811**	**–**	**(44)**	**(22)**
Additions	**–**	**79**	**–**	**–**	**–**
Additions upon business combinations	**–**	**–**	**–**	**–**	**(48)**
Disposals	**–**	**(436)**	**–**	**–**	**–**
Settlement	**–**	**–**	**–**	**–**	**20**
Fair value movement recognized in the consolidated income statement	**–**	**268**	**–**	**15**	**–**
End of year	**77**	**722**	**–**	**(29)**	**(50)**

The estimated fair value of level 3 financial assets as at December 31, 2018 was HK$799 million (2017: HK$888 million).

f. Group's valuation process

The Group performs and monitors the valuations of financial assets required for financial reporting purposes, including level 3 fair values. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

The main level 3 input used by the Group pertains to the use of recent arm's length transactions, reference to portfolio statements, and reference to other listed instruments that are substantially the same, adjusted for the marketability discount on the Group's investments. The higher the marketability discount, the lower the fair value.

43 COMMITMENTS

a. Capital

As at December 31, 2018, capital commitments authorized and contracted for by nature are as follows:

In HK$ million	2017	**2018**
Investments	33	**16**
Investment properties	19	**18**
Property under development	167	**919**
Acquisition of property, plant and equipment	1,193	**2,091**
	1,412	**3,044**

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	130	**23**
After 1 year but within 5 years	573	**42**
After 5 years	413	**–**
	1,116	**65**

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 Group has other outstanding commitments as follows:

In HK$ million	2017	**2018**
Purchase of rights to broadcast certain TV content	2,020	**3,347**
Operating expenditure commitments	214	**3,514**
	2,234	**6,861**

43 COMMITMENTS *(CONTINUED)*

d. Lease receivables

As at December 31, 2018, the total future minimum lease receipts under non-cancellable operating leases are receivables as follows:

In HK$ million	2017	**2018**
Within 1 year	98	**112**
After 1 year but within 2 years	103	**111**
After 2 years but within 3 years	92	**117**
After 3 years but within 4 years	111	**102**
After 4 years but within 5 years	104	**91**
After 5 years	320	**210**
	828	**743**

The Group leases out properties under operating leases. The majority of the leases typically run for periods of 1 to 15 years. None of the leases include material contingent rentals.

44 CONTINGENT LIABILITIES

In HK$ million	2017	**2018**
Performance guarantees	572	**566**
Tender guarantees	2	**2**
Payment guarantees	–	**34**
Guarantees given to banks in respect of credit facilities granted to an associate	60	**56**
Guarantees in lieu of cash deposit	49	**49**
Employee compensation	8	**8**
Guarantees indemnity	11	**11**
	702	**726**

The Group operates across several jurisdictions and is subject to certain queries from relevant tax authorities in respect of tax treatment of certain matters currently under way. As at December 31, 2018, the Group is unable to ascertain the likelihood of the outcome of these tax queries, other than those provided for. Based on the currently available information and assessment, the directors are of the opinion that these cases will not have a significant financial impact to the Group.

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

45 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2018 was HK$40,112 million (2017: HK$37,851 million) of which the unused facilities amounted to HK$15,092 million (2017: HK$15,492 million).

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at December 31, 2018, the Group was in compliance with the covenants relating to drawn down facilities. Further details of the Group's management of liquidity risk are set out in note 42(b).

Summaries of short-term and long-term borrowings are set out in notes 29(f) and 30 respectively.

Securities pledged for certain bank loan facilities includes:

In HK$ million	2017	**2018**
Property, plant and equipment	89	**923**
Property held for development	–	**2,172**
Financial assets at FVOCI	–	**963**
AFS financial assets	1,039	**–**
Property under development	–	**770**
Restricted cash	–	**221**
Cash and cash equivalents	–	**3**
	1,128	**5,052**

46 DISPOSAL OF INTERESTS IN SUBSIDIARIES

Pursuant to sale and purchase agreements all dated November 21, 2018, the Group disposed of its entire equity interests in iLink Business Solutions Limited, Horizon Plus Limited and iLink.net Limited (collectively referred to as the "Disposed Subsidiaries"), together with the associated shareholder loans, to a group of buyers (the "Buyers"), independent of the Group for aggregate cash consideration of approximately HK$387 million (the "Transaction"), subject to adjustments. The Disposed Subsidiaries were indirect wholly-owned subsidiaries of the Company, principally engaged in investment holding of properties (the "Disposed Properties") located in Hong Kong, which are currently occupied by the Group's Media Business. The Transaction was completed in December 2018.

The Transaction was part of the Group's plan to improve and relocate the media production facilities to cope with the expansion of the Media Business. To facilitate the transition, the Group agreed to leaseback the Disposed Properties pursuant to lease agreements all dated December 20, 2018 with landlords (i.e. the Disposed Subsidiaries) for a period of three years from December 21, 2018, with options to renew for another two renewal terms of three years each (subject to termination by either tenant or landlords with a prior notice of not less than 18 months), and with a monthly rental of approximately HK$1 million for the initial first year which is subject to 3.5% annual increase thereafter.

Management considered the leaseback arrangement an arm's length transaction with the Buyers as the lease payments were determined with reference to prevailing market rental of similar properties nearby.

Details of aggregate net assets disposed of and the gain on disposal of interests in the Disposed Subsidiaries at the date of disposal were as follows:

In HK$ million	**Net assets disposed of and the gain on disposal**
Consideration settled by cash, net of direct expenses	**377**
Right-of-use assets arising from leaseback	**8**
Lease liabilities arising from leaseback	**(57)**
Less: Aggregate carrying amount of net assets disposed of	**(52)**
Gain on disposal recognized in the consolidated income statement *(note 9)*	**276**

The aggregate carrying amount of assets and liabilities of the Disposed Subsidiaries at the date of disposal were as follows:

In HK$ million	Note	**Carrying amount**
Property, plant and equipment	16	**52**
Interests in leasehold land	19	**1**
Trade receivables, net		**1**
Deferred income tax liabilities	37a	**(2)**
Aggregate carrying amount of net assets disposed of		**52**

47 BUSINESS COMBINATIONS

a. Acquisition of Jumbo Fame Global Limited and its subsidiaries (together the "Jumbo Group")

Pursuant to the share purchase agreement dated November 28, 2018, the Group acquired 51% equity interests in Jumbo Fame Global Limited, a company incorporated in the British Virgin Islands, and its subsidiaries for a total consideration of approximately HK$88 million. The Jumbo Group is a leader in the key opinion leader ("KOL") market in Hong Kong, offering a combination of advertising, video production and event production services. The acquisition will create synergistic value to the Media Business through achieving content diversification and attracting more subscribers and viewers.

The Group is required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the date when the Group obtains the majority stake and control of the acquired companies. As of the date of these consolidated financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Group recorded the excess of the cost of acquisition over the estimated fair values of the acquired assets and liabilities as goodwill. This allocation of the purchase price to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2019 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2019.

i. Details of net assets acquired and goodwill in respect of the acquisition of the Jumbo Group at the acquisition date were as follows:

In HK$ million	Net assets acquired and goodwill
Purchase consideration settled in cash	40
Consideration payable	48
Aggregate purchase consideration	88
Less: Fair value of net assets acquired	(19)
Goodwill on acquisition	69

The goodwill reflects synergies expected from leveraging KOL's network of the Jumbo Group across our Media platforms through achieving content diversification and attracting more subscribers and viewers. None of the goodwill is expected to be deductible for tax purposes.

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

In HK$ million	Fair value
Property, plant and equipment	1
Right-of-use assets	5
Intangible assets	36
Trade receivables, prepayments, deposits and other current assets	21
Cash and cash equivalents	1
Trade payables, accruals and other payables	(14)
Lease liabilities – current	(4)
Current income tax liabilities	(2)
Lease liabilities – non-current	(1)
Deferred income tax liabilities	(6)
	37
Non-controlling interests	(18)
Net assets acquired	19

47 BUSINESS COMBINATIONS *(CONTINUED)*

a. Acquisition of Jumbo Fame Global Limited and its subsidiaries (together the "Jumbo Group") *(continued)*

i. Details of net assets acquired and goodwill in respect of the acquisition of the Jumbo Group at the acquisition date were as follows: *(continued)*

In HK$ million	Net cash outflow
Purchase consideration settled in cash	**40**
Less: Cash and cash equivalents acquired	**(1)**
Total net cash outflow for the year ended December 31, 2018	**39**

ii. Acquisition-related costs

Acquisition-related costs of approximately HK$1 million were included in general and administrative expenses in the consolidated income statement for the year ended December 31, 2018.

iii. Revenue and profit contribution

The Jumbo Group contributed revenue of approximately HK$7 million and profit before income tax of approximately HK$1 million to the Group for the period from the completion date of the acquisition on November 30, 2018 to December 31, 2018. If the acquisition had occurred on January 1, 2018, the revenue and profit before income tax for the year ended December 31, 2018 would have been approximately HK$69 million and approximately HK$15 million, respectively.

iv. Contingent consideration

Included in the total consideration was fair value of a contingent consideration of approximately HK$48 million, of which the Group is required to make payments totaling up to a maximum level of approximately HK$257 million subject to achievement of certain financial targets in years 2018 to 2021.

The fair value of the contingent consideration was estimated by applying income approach. The fair value estimates are based on a discount rate of 13% and assumed probability-adjusted EBITDA of the Jumbo Group. This is a level 3 fair value measurement. The key unobservable assumptions in calculating this EBITDA is the assumed revenue for the period from the acquisition date to December 31, 2021.

v. Put option arrangement

The Group has written a put option to the shareholder who owns the remaining 49% equity interests in Jumbo Fame Global Limited. The put option is exercisable upon the achievement of certain financial targets in 2022, entitling the holder to put his/her equity interest to the Group at an option price to be determined by a fixed multiplier to the EBITDA of the Jumbo Group for the year ending December 31, 2021, subject to a cap of HK$285 million. As at December 31, 2018, included in other long-term liabilities was the present value of the amount that could become payable upon the exercise of the put option amounted to HK$223 million.

b. Acquisition of The Club Travel Services Limited (formerly known as Pioneer Travel Services Limited) ("Club Travel")

On July 30, 2018, the Group completed the acquisition of the entire issued share capital of Club Travel, a private company incorporated in Hong Kong. Club Travel is a licenced travel agent engages in the provision of travel services. The acquisition helps to serve the Group to handle travel arrangements for customers and some internal users. The aggregate consideration was not material to the Group.

c. Acquisition of Yugenkaisha Hakuousha Cleaning Company

On May 30, 2018, the Group completed the acquisition of the entire issued share capital of Yugenkaisha Hakuousha Cleaning Company, a private company incorporated in Japan, which provides laundry services in Hokkaido, Japan. The aggregate consideration was not material to the Group.

(Amount expressed in Hong Kong dollars unless otherwise stated)

48 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT LOSS OF CONTROL

During the year ended December 31, 2017, the Group completed the placing of 840,747,000 Share Stapled Units at HK$10.15 per Share Stapled Unit at an aggregate consideration, net of direct expenses, of approximately HK$8,361 million in cash. Accordingly, the Group recognized an increase in non-controlling interests of the HKT Group of approximately HK$547 million (restated) and an increase in equity attributable to the equity holders of the Company of approximately HK$7,814 million (restated). Immediately after the completion of the placing, the Group holds approximately 51.97% of the total number of Share Stapled Units in issue, representing a reduction by approximately 11% from that before the placing.

49 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 Group.

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2018

Results

In HK$ million	2014*	2015*	2016*	2017 (Restated)	**2018**
Continuing operations					
Revenue	33,277	39,314	38,384	36,832	**38,850**
Cost of sales	(15,151)	(18,965)	(17,743)	(18,344)	**(20,642)**
General and administrative expenses	(14,091)	(14,534)	(15,114)	(12,859)	**(12,970)**
Other gains/(losses), net	2,717	135	32	(35)	**643**
Interest income	90	87	52	133	**134**
Finance costs	(1,418)	(1,634)	(1,429)	(1,636)	**(1,899)**
Share of results of equity accounted entities	50	37	45	54	**68**
Profit before income tax	5,474	4,440	4,227	4,145	**4,184**
Income tax	(803)	(447)	(395)	(1,061)	**(1,134)**
Profit for the year from continuing operations	4,671	3,993	3,832	3,084	**3,050**
Discontinued operations					
Profit for the year from discontinued operations	–	–	–	1,143	**–**
Profit for the year	4,671	3,993	3,832	4,227	**3,050**
Profit attributable to:					
Equity holders of the Company	3,310	2,295	2,051	2,038	**897**
Non-controlling interests	1,361	1,698	1,781	2,189	**2,153**

Assets and Liabilities

As at December 31

In HK$ million	2014*	2015*	2016 (Restated)	2017 (Restated)	**2018**
Total non-current assets	51,648	54,619	62,579	66,298	**72,754**
Total current assets	21,391	20,139	18,995	26,226	**21,473**
Total current liabilities	(19,018)	(17,493)	(15,101)	(15,127)	**(14,592)**
Total non-current liabilities	(41,652)	(43,923)	(52,638)	(55,505)	**(60,026)**
Net assets	12,369	13,342	13,835	21,892	**19,609**

Distributable Reserves of the Company

As at December 31

In HK$ million	2014	2015	2016	2017	**2018**
Distributable reserves of the Company	17,912	18,460	18,855	18,905	**19,104**

* 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, HKFRS 9 (2014), and the operations discontinued during the year ended December 31, 2018 as the directors are of the opinion that it is costs over benefits to do so.

INVESTOR RELATIONS

DIRECTORS

The directors of the Company as at the date of the announcement of the 2018 Annual Results are:

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

Non-Executive Directors:
Tse Sze Wing, Edmund, GBS
Li Fushen *(Deputy Chairman)*
Shao Guanglu
Zhu Kebing
Wei Zhe, David

Independent Non-Executive Directors:
Aman Mehta
Frances Waikwun Wong
Bryce Wayne Lee
Lars Eric Nils Rodert
David Christopher Chance
David Lawrence Herzog

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Bernadette M. Lomas

REGISTERED OFFICE

41st Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong
Telephone: +852 2888 2888
Fax: +852 2877 8877

ANNUAL REPORT 2018

This Annual Report 2018 in both English and Chinese is now available in printed form from the Company and the Company's Share Registrar, and in accessible format on the websites of the Company (www.pccw.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Shareholders who:
A) received the Annual Report 2018 using electronic means through the website of the Company 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 the Company c/o the Company's Share Registrar at:

Computershare Hong Kong Investor Services Limited
Investor Communications Centre
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Telephone: +852 2862 8688
Fax: +852 2865 0990
Email: pccw@computershare.com.hk

Shareholders who have chosen (or are deemed to have agreed) to receive the corporate communications of the Company (including but not limited to the Annual Report 2018) using electronic means through the Company's website 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 Company's Share Registrar, be sent the Annual Report 2018 in printed form, free of charge.

Shareholders may change their choice of language and/or means of receipt of the Company's future corporate communications at any time, free of charge, by reasonable prior notice in writing or by email to the Company's Share Registrar.

LISTINGS

The Company's shares are listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts ("ADRs") on the OTC Markets Group Inc. in the United States. Each ADR represents 10 ordinary shares of the Company. Certain guaranteed notes issued by subsidiaries of the Company are listed on the Singapore Exchange Securities Trading Limited and the Taipei Exchange in Taiwan, China.

Owners of record as of the close of business on the ADR record date of American Depositary Shares can vote by proxy at the annual general meeting by completing a voting instruction card provided by the Depositary Bank. The Depositary Bank will tabulate and transmit the amount of ordinary share votes to the Company before the annual general meeting.

Additional information and specific inquiries concerning the Company's ADRs should be directed to the Company's ADR Depositary at the address given on this page.

Other inquiries regarding the Company should be addressed to Investor Relations at the address given on this page.

STOCK CODES

The Stock Exchange of Hong Kong Limited	0008
Reuters	0008.HK
Bloomberg	8 HK
ADRs	PCCWY

REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Telephone: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

ADR DEPOSITARY

Citibank, N.A.
PCCW American Depositary Receipts
Citibank Shareholder Services
P.O. Box 43077
Providence, Rhode Island 02940-3077, USA
Telephone: +1 877 248 4237 (toll free within USA)
Telephone: +1 781 575 4555
Email: citibank@shareholders-online.com
Website: www.citi.com/dr

SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at December 31, 2018:	7,719,638,249 shares

DIVIDEND

Dividend per ordinary share for the year ended December 31, 2018:

Interim	8.91 HK cents
Final	22.33 HK cents*

** Subject to the approval of shareholders at the 2019 Annual General Meeting*

FINANCIAL CALENDAR

Announcement of 2018 Annual Results	February 25, 2019
2019 Annual General Meeting	May 9, 2019
Closure of register of members (for determination of shareholders who qualify for 2018 final dividend)	May 16-17, 2019 (both days inclusive)
Record date for 2018 final dividend	May 17, 2019
Payment of 2018 final dividend	On or around June 11, 2019

INVESTOR RELATIONS

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WEBSITE

www.pccw.com

Forward-Looking Statements

This annual report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of PCCW about the business, industry and markets in which we operate.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- our ability to execute our business strategy to expand our businesses locally and overseas, including entering into business combinations, strategic investments and acquisitions and challenges in growing business organically;
- our ability to develop our growth businesses in media and IT services after the spin-off of the telecommunications business into HKT;
- possible negative effects of potentially new regulatory developments;
- increased competition in the Hong Kong media market and the IT services market;
- increased content costs, changes in customer viewing habits or changes in technology;
- increased competition in the Hong Kong telecommunications market;
- our ability to obtain additional capital;
- our ability to implement our business plan as a consequence of our substantial debt; and
- our exposure to interest rate risk.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of PCCW as at the date of this annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

PCCW Limited (Incorporated in Hong Kong with limited liability)

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