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CORPORATE PROFILE

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

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

HKT also provides a range of innovative and smart living services beyond connectivity to make the daily lives of customers more convenient, whether they are at home, in the workplace, or on the go.

Employing approximately 17,600 staff, HKT is headquartered in Hong Kong and maintains a presence in mainland China as well as other parts of the world.

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

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



Fixed Line **eye**[®]

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



netvigator[®]

NETVIGATOR is Hong Kong's largest broadband service provider with its network covering 98% of households. Our true fiber network covers 88.3% of buildings and 85.6% of homes in Hong Kong. We also provide an array of value-added services to ensure a high-quality and safe online experience. Business NETVIGATOR provides a wide range of quality and reliable broadband services and solutions for enterprises to benefit their business.



csl. [®]

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



PCCW Global[®]

PCCW Global offers the latest voice and data solutions to multinational enterprises and communication service providers. Its global network connects more than 3,000 cities and 150 countries in the world and supports a portfolio of integrated global communications solutions and services. PCCW Global maintains regional centers in 11 countries worldwide.

STATEMENT FROM THE CHAIRMAN

I am pleased to report that HKT recorded a satisfactory performance of its key lines of business and a continued growth in AFF (adjusted funds flow) for the year ended December 31, 2017.

The broadband and mobile communications businesses faced intense market competition throughout the year, but both segments continued to maintain their market leadership positions given their operational resilience and relentless drive for innovation and service excellence.

In the second half, we introduced 4x1000Mbps FTTH (fiber-to-the-home) broadband service and became the first Hong Kong mobile operator to offer in-flight data roaming day passes for customers on board a plane. As part of our retail expansion, HKT opened a concept store offering IoT (Internet of Things) related products and services to customers.

As Hong Kong develops into a smart city, Tap & Go has also made determined steps to capture the growing mobile payment market, introducing merchant and consumer-friendly features as well as widely broadening the network of banks for customers to top up their electronic wallet.

In 2018, while the Hong Kong telecom market is expected to remain highly competitive, we are confident of our ability to excel in what appear to be improved local economic conditions. Riding on the strengths of HKT's well-established core operations, we will cautiously develop the new business opportunities with a view to generating additional momentum for the company's longer-term growth.

As we implement our strategies, we will continue to monitor the economic situation and the highly dynamic market environment, so we can make appropriate responses as and when necessary.

Richard Li
Chairman
February 6, 2018

STATEMENT FROM THE GROUP MANAGING DIRECTOR

It is my pleasure to chronicle in the following sections highlights of our business activities in 2017.

CONTINUOUS BROADBAND INNOVATION

Because of our extensive true fiber and high-speed broadband network and the constant drive for innovation, HKT's broadband business sustained a steady performance last year despite fierce competition in the market.

Our objective is to provide not only high-speed connectivity, but also an overall Internet experience with speed, security, privacy of use, affordability and unparalleled customer service. In the second half, NETVIGATOR introduced its 4x1000M Multi-Use Broadband Service to meet the present and future needs of customers as technology and new applications continue to evolve. Four individual circuits of 1Gbps downstream speed can be used by different members of the family.

To complement this service, HKT also became the exclusive broadband operator in Hong Kong to offer the new Google Wifi in August. HKT's Smart Living offers a King of Coverage service plan with Google Wifi, giving customers seamless coverage in the entire home via a mesh network of individual Wi-Fi points that work together to spread a strong signal.

In addition to serving residential customers, HKT is also the leading telecom services provider to the enterprise segment in Hong Kong. During the year, we benefitted from the healthy enterprise demand for cross-border connectivity solutions, managed cloud services and network facility management integrating connectivity, cloud-based applications and ancillary co-location facilities, which contributed to the growth of our local data revenue.

RAISING MOBILE SERVICE BENCHMARK

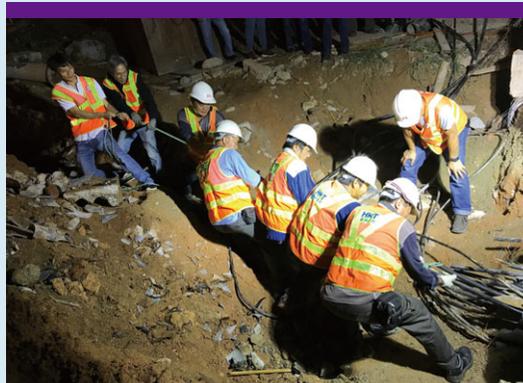
With HKT's service motto of "Here to Serve", and being the largest mobile communications service provider in Hong Kong, CSL is committed to ensuring that our customers have an excellent mobile experience.

In August, we rolled out Hong Kong's first IP-RAN based 1Gbps mobile network, the fastest specification in Hong Kong. This came on the heels of the launch of the first LTE-A 600Mbps network in May 2017. The technology of 4x4 MIMO (Multiple Input Multiple Output) and Four Component Carrier (4CC) Aggregation enables peak download speed of up to 1Gbps for mobile users with a compatible device. The 1Gbps service has been launched at selected high traffic locations and will be progressively extended to more areas.

PROVIDING RELIABLE TELECOM SERVICES

HKT has excellent network management capabilities to ensure a reliable service for our customers. However, from time to time our services are affected because third-party construction companies recklessly dig into our underground cables and damage them in road works or civil works. While our engineers will undertake emergency traffic diversion and repair the damaged cables, such incidents will inevitably cause different degrees of inconvenience to our customers.

In 2017, there were 11 cases of copper or fiber cable damage caused by third-parties. As Hong Kong is becoming a smart city, our telecom network is playing an important role as the city's key infrastructure. Underground telecom facilities should be protected by laws to ensure network reliability, just like the protection of other public utility facilities. We believe there should be laws and regulations to protect underground telecom facilities by imposing heavy fines and other punitive measures on the offenders.



To cater to travelers' needs, CSL again led the Hong Kong market with the introduction of an in-flight day pass for data roaming on board a plane. The day pass can now be used in suitably equipped aircraft of 37 airlines from Hong Kong and around the world.

In 2017, the mobile communications business experienced what was probably the most intense price competition in recent years in both the consumer and commercial segments. CSL launched timely promotional efforts and special offers to attract and retain customers which helped us hold firmly to our leadership position.

INSPIRING OUR TOMORROW

With the advent of 5G and aspirations for smarter lifestyles, HKT took our retail service to a new level with the August opening of a concept store promoting Internet of Things (IoT). The store, io.t by HKT, is located at the up-market ELEMENTS shopping mall in Tsim Sha Tsui. The store showcases the benefits that IoT can bring to communications, entertainment, education, work, etc.

Occupying an area of 5,200 sq.ft., io.t by HKT comprises several distinctive zones to demonstrate respectively, among others, the latest mobile smart devices and wearables; a range of IoT-enabled devices and solutions such as smart mobility; HKT Premier's showrooms of intelligent home styles; smart living solutions including Smart Charge electric vehicle charging and e-learning solutions; and a lounge for 1010 and HKT Premier customers, and platinum members of our loyalty program The Club.

MOBILE PAYMENT MADE EASY

Through its wholly-owned HKT Payment Limited, a Stored Value Facilities (SVF) License holder, HKT operates mobile payment service Tap & Go which launched several initiatives in quick succession in the second half.

In August, we introduced Go QR, which is a payment acceptance service for retailers using QR codes. This is particularly suitable for start-ups and small merchants. Each participating merchant is provided with a unique QR code for customers to scan when making payments. Towards the year-end, Tap & Go launched the Go QR mPOS, a portable point-of-sale device that accepts QR code payment. With more merchants providing QR code payment options, Tap & Go customers can also enjoy greater convenience in mobile payment.

Throughout the year, Tap & Go has been continuously expanding the bank network for customers to top up their mobile wallet via e-banking, ATM and other means. By now the network covers almost all the major consumer banks in Hong Kong. In December, Tap & Go introduced the Tap & Go i.Card, a new virtual Mastercard® which customers can obtain online almost instantaneously.

THE CLUB

The Club is a loyalty and reward program for Hong Kong people with a variety of exclusive services and benefits. The Club's prestigious membership tier benefits are meticulously selected to meet various lifestyle and entertainment needs. Eligible spending on HKT services and merchant partners will earn Clubpoints. The Clubpoints can then be redeemed for HKT services and an array of products, services and privileges. These include priority booking when buying concert tickets, travel package offers, beverages and electronic gadgets. The Club also partners with merchants and event organizers to bring a wide range of products and events to members. HKT aims to enrich Hong Kong people's lifestyle through continuous innovation and investment. The Club is an important initiative to reward our customers and differentiates HKT as a truly customer-focused company.



BEYOND HONG KONG

The business prospect of the payment service does not stop at the border. Through our international operating division PCCW Global, we have been exploring the technological and regulatory viability of multi-currency Tap & Go in the Greater Bay Area of Zhuhai, Hong Kong and Macau, which would boost e-commerce, business trade and tourism in the region.

HKT's global connectivity covers 3,000 cities in 150 countries. Following the landing in Hong Kong last summer of the Asia Africa Europe-1 (AAE-1) submarine cable – of which we are a consortium member – PCCW Global has joined another international consortium to construct JUPITER, a high-capacity 14,000km cable system that will connect Japan with the USA and the Philippines, with a target ready-for-service date of early 2020.

LOOKING AHEAD

HKT has in the past year clearly demonstrated its operational resilience and ability to fend off aggressive price competition. While we will continue to be competitive on price, we will continue to innovate and provide the best customer experience, which we believe is the only key to sustainable business growth.

In particular, we will further develop our fiber network advantages for customer acquisition and upgrades, and offer mobile communications services, deployed on our fiber backbone, that are second to none. We will continue to groom our new businesses such as mobile payment for more organic growth of the company in the future.

We are cognizant that the telecom market is likely to see further bouts of competitive behavior. As the leading operator in Hong Kong, and with a team dedicated to delivering the best products and services, we are confident that HKT will continue to be regarded by consumers and businesses as their most trustworthy telecom partner and we will continue to provide competitive services on a value-for-money basis.

Alex Arena

Group Managing Director
February 6, 2018

DRIVING FOR A CLEANER ENVIRONMENT

With a belief in pursuing innovation, leadership, sustainability and speed, HKT was once again the title sponsor of the Formula E event in 2017, following our support in the Hong Kong debut of the series in 2016. HKT provided the fiber broadband network, public Wi-Fi service and global connectivity for live international broadcast, and staged a 3,000-sq.ft. booth at the free-access carnival-type E-Village where Hong Kong people could play interactive games and watch race live broadcast. The two-day event held in December at the Central harbor front attracted 27,000 spectators.



HKT is committed to promoting electric mobility and sustainable environment. As major car makers have increased their production in electric vehicles (EV) and some even have announced to be EV-only makers in the near future, more new models will be launched, which will improve roadside air quality. HKT's joint venture with CLP Holdings, Smart Charge, is ready to further expand its coverage to more residential and commercial properties to meet drivers' demand for EV charging services.

BUILDING FOR TOMORROW, TODAY

HKT is committed to continuous innovation and service excellence. We have invested heavily in telecommunications infrastructure and work tirelessly to deploy the latest technologies to meet not only the current demands but also future needs of our customers, both individuals and enterprises.

Our fiber-rich network and fiber IP backbone are essential foundation infrastructure for 5G and Internet of Things (IoT) applications, as Hong Kong develops into a Smart City. 5G is the next generation wireless technology designed to extend the current mobile broadband service mainly for human connectivity to enable support of massive machine connectivity. HKT believes that 5G network will therefore be the basic infrastructure of the future to support

a wide range of services, use cases and applications ranging from ultra high speed wireless broadband, ultra reliable low latency service (e.g. connected and autonomous vehicles), and massive machine type (IoT) connections.

Apart from mobile devices and computers, many home appliances, security cameras, cars and meters can also be connected to the Internet through 5G network. 5G can be used in smart grids, smart farming, smart meters for water leakage, intelligent transportation and public safety services. 5G will also provide ultra-fast transmission speed of up to 10Gbps and reduce latency significantly to ensure data to be transmitted at minimum delay to enable remote tactile applications (e.g. remote driving and remote surgery).

<p style="text-align: center;">Enhanced Mobile broadband eMBB</p> <div style="display: flex; justify-content: space-around; align-items: center;">   </div> <div style="display: flex; justify-content: space-around; align-items: center;">   </div> <p style="text-align: center;">Improved consumer experience More connected devices Faster connection speeds Virtual and Augmented Reality</p>	<p style="text-align: center;">Massive Machine type communications mMTC</p> <div style="display: flex; justify-content: space-around; align-items: center;">   </div> <p style="text-align: center;">e-health Transport & logistics Environmental monitoring Smart energy networks Smart agriculture, smart retail</p>	<p style="text-align: center;">Ultra-reliable and low latency communications uRLLC</p> <div style="display: flex; justify-content: space-around; align-items: center;">   </div> <p style="text-align: center;">Vehicle-to-everything communication Drone delivery Autonomous monitoring Smart manufacturing</p>
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New 5G services and applications

Being Hong Kong's largest mobile operator, HKT has been upgrading its mobile network continuously to prepare for the arrival of 5G. In August 2017, HKT rolled out Hong Kong's first IP-RAN based 1Gbps mobile network, the fastest mobile network specification in Hong Kong, after the debut of the LTE-A 600Mbps network in May.

During the course of this continuous upgrade, HKT is also building a backbone infrastructure for 5G to link cell sites directly with fiber aiming to achieve (device to Internet) latency as low as 1 millisecond. We have massively rolled out 10Gbps fiber backhaul connecting outdoor cell sites, and deployed small cells connected with fiber in the building to ensure the cells support peak throughput. All this infrastructure aims to pave way for simple upgrade to 5G in the future.

HKT also showcases to our customers and partners how IoT technology enriches virtually every aspect of daily life in our newly opened "io.t by HKT" concept store. Connected car solutions are demonstrated in the store to show how driving information such as trip data and vehicle status can be collected and analyzed. Our connected home solutions enable visitors to operate home AV system and air-conditioner through smart devices and voice control. HKT and 1010 also demonstrate a series of retail solutions to show how IoT and other digital solutions can help retailers transform their business.



Connected home solutions at "io.t by HKT"

STEM (science, technology, engineering and mathematics) learning inspires students to scientific and technological innovations for tomorrow. HKT education offers STEM education tools to unleash student potential. We have also introduced Virtual Reality (VR) technology in schools enabling students to learn in a virtual world.



HKT education brings VR technology to schools with Google Cardboard service.

In order to support the Government's endeavor to transform Hong Kong into a Smart City, HKT joined forces with Hong Kong Applied Science and Technology Research Institute (ASTRI), Huawei Technologies and Qualcomm Technologies to form the Smart Mobility Consortium in March 2017 to explore the use of Cellular V2X (C-V2X) technology in building a smart and safer mobility system for Hong Kong. A few months later, the Consortium successfully demonstrated for the first time in Hong Kong the use of C-V2X technology for connected cars.



Cellular V2X technology enhances road safety.

HKT expects the demand for global data bandwidth to continue to grow due to the emergence and increased popularity of new, bandwidth-intensive technologies including VR, Augmented Reality (AR), Mixed Reality (MR), social media applications, video streaming, and gaming. The landing of the high-capacity Asia Africa Europe-1 (AAE-1) cable in Hong Kong in July 2017 and our participation in a consortium in building JUPITER cable system demonstrates our commitment to supporting the growth of these emerging applications.

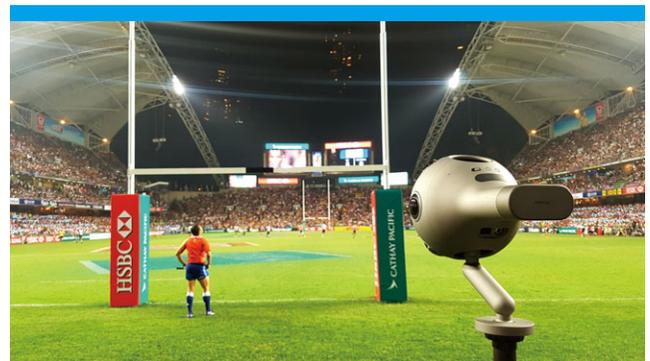
The AAE-1, which follows a route similar to the Silk Road Economic Belt, will further support China's One Belt One Road initiative for all forms of high-speed data services and content applications.



AAE-1 cable map

In order to meet the rising demand for high speed and high capacity connectivity requirement from data center operators, HKT is building Ultra Express Link, a super high capacity fiber optic cable connecting Tseung Kwan O Industrial Estate (TKOIE) and Chai Wan, which will provide robust, reliable, lower latency and diversity connectivity and foster the development of TKOIE to become Asia's data center hub.

HKT also provides strong support for Hong Kong's e-Sports development. In August, PCCW Global delivered resilient high speed and ultra-low latency connectivity for the Return of the Legends tournament, based on the eSports game League of Legends. PCCW Global delivered a bespoke jitter-free and low latency connection with a 22-millisecond roundtrip delay between Hong Kong and Taiwan where the nearest official League of Legends tournament servers were located. The event attracted five million viewers online. In April 2017, PCCW Global delivered the world's first live broadcast coverage of the 2017 Cathay Pacific/HSBC Hong Kong Sevens in 360° VR with the support of Now TV.



PCCW Global and Now TV deliver a live 360° VR broadcast of the Hong Kong Sevens.

HKT IN NUMBERS

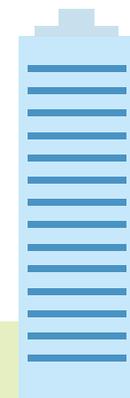
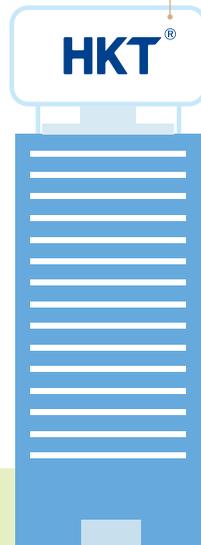
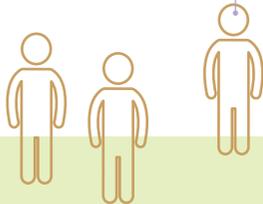
 2.638M

exchange lines including
1.389M residential lines
and 1.249M business lines

 1.591M

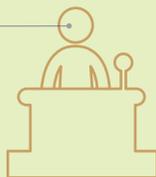
broadband access lines
including 1.423M consumer
lines (with 698,000 FTTH lines)
and 154,000 business lines

17,600+ staff



1,838

staff training
programs
and seminars



21,131 

volunteer service hours in 43 ongoing
and special community programs

Global network connecting



3,000+ cities
and 150 countries



4.407M
mobile subscribers



2.303M
activated members
of The Club

Total revenue

HK\$33.258 billion

Total EBITDA

HK\$12.997 billion

Profit attributable to holders of
Share Stapled Units

HK\$5.097 billion

Adjusted funds flow

HK\$4.912 billion

Total distribution per
Share Stapled Unit

64.87 HK cents

AWARDS

Award	Awardee	Scheme Organizer
7th Asian Excellence Award 2017 <ul style="list-style-type: none"> • Best Investor Relations Company • Asia's Best CFO Award 	HKT HKT GCFO	<i>Corporate Governance Asia</i>
49th Distinguished Salesperson Award Programme <ul style="list-style-type: none"> • Distinguished Salesperson Award • Outstanding Young Salesperson Award 	HKT shop, 1010, csl staff members HKT staff member	The Hong Kong Management Association
Asia Communications Award <ul style="list-style-type: none"> • Project of the Year 	PCCW Global	Total Telecom
Award of 10,000 Hours for Volunteer Service	Volunteer team of HKT and PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Best of IT Awards 2016 <ul style="list-style-type: none"> • My Favorite Broadband Service • My Favorite Mobile Service Provider • The Best CPE Service Provider 	NETVIGATOR csl HKT Business Broadband	<i>PCM</i>
Boss of the Security Operations Center (SOC) 2017 <ul style="list-style-type: none"> • First Place 	HKT Engineering	Splunk HK
CAHK STAR Awards 2017 <ul style="list-style-type: none"> • The Best Brand Campaign – Gold • The Best Mobile Network Operator – Silver • The Best Brand Campaign – Certificate of Merit • The Best Mobile Network Operator – Certificate of Merit • The Best Fixed Network Operator – Gold 	1010 csl HKT	Communications Association of Hong Kong
Capacity Africa Awards 2017 <ul style="list-style-type: none"> • Best Anti-Fraud Initiative 	PCCW Global	Capacity Africa
CAPITAL WEEKLY PROchoice Awards 2017 <ul style="list-style-type: none"> • The Best Digital Marketing Award 	1010	<i>CAPITAL WEEKLY</i>



HKT wins The Best Fixed Network Operator – Gold award at the CAHK STAR Awards 2017.

Award	Awardee	Scheme Organizer
CAPITAL WEEKLY Service Awards 2017 <ul style="list-style-type: none"> • Telecom Service 	1010	<i>CAPITAL WEEKLY</i>
Caring Company Logo	HKT	The Hong Kong Council of Social Service
Charter on External Lighting <ul style="list-style-type: none"> • Platinum Award 	HKT	The Environment Bureau
China Best Outsourcing Customer Contact Center of the Year Awards 2017	HKT Teleservices	51Callcenter
Cloud Excellence Awards 2017 <ul style="list-style-type: none"> • Best Hybrid Cloud Service 	HKT Enterprise Cloud	<i>Computerworld Hong Kong</i>
ComputerWorld Hong Kong Awards 2017 <ul style="list-style-type: none"> • Corporate Mobile Services Provider • Mobile Device Management • Infrastructure-as-a-Service Provider • Local Data and Telecoms Services Provider 	1010 HKT	<i>ComputerWorld Hong Kong</i>
Corporate Governance Asia Recognition Awards 2016 <ul style="list-style-type: none"> • Asia's Outstanding Company on Corporate Governance • Asian Corporate Director Recognition Award 	HKT HKT GMD	<i>Corporate Governance Asia</i>
2016/2017 Corporate & Employee Contribution Programme Honours List <ul style="list-style-type: none"> • Bronze Award 	HKT	The Community Chest
2016 Customer Relationship Excellence Awards <ul style="list-style-type: none"> • Customer Service Manager of the Year 2016 (IoT Smart Home – Service Center) • Customer Service Professional of the Year 2016 (IoT Smart Home – Contact Center) • Customer Service Professional of the Year 2016 (IoT Smart Home – Service Center) 	HKT staff members	Asia Pacific Customer Service Consortium
Directors Of The Year Awards 2017 <ul style="list-style-type: none"> • Company Categories – Listed Companies (SEHK – Non Hang Seng Indexes Constituents) Category 	HKT GMD	The Hong Kong Institute of Directors
e-brand Awards 2017 <ul style="list-style-type: none"> • The Best Business Wi-Fi Solution • The Best of Broadband Solutions • The Best of SME Cloud Solutions • The Best of Telecommunication Network Service Provider • The Best of Residential Fiber Broadband Service • The Best of Smart Living Brand • The Best of Social Media Marketing • The Best of Telecommunication Service 	HKT NETVIGATOR Smart Living csl	<i>e-Zone</i>

AWARDS (CONTINUED)

Award	Awardee	Scheme Organizer
Elite Awards 2016 • Mobile Network Service Operator	1010	Ming Pao Weekly
2017 Friends of EcoPark Award	csl	Environmental Protection Department
“Fostering Sustainable Consumption For Hong Kong Business and the Community” Programme • Sustainable Consumption Enterprise	HKT	Business Environment Council
GCCM Awards 2017 • Unified Communications Provider	PCCW Global	Carrier Community
Global Carrier Awards • Best Data Service Innovation – Emerging Markets	PCCW Global	Capacity
GoHome Awards 2017 • Best Smart Home Service	Smart Living	GoHome.com.hk
2016 Gold Award for Volunteer Service • Organization	HKT	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
GTB Telecoms Innovation Summit and Awards 2017 • Wholesale Service Innovation Award	Tap & Go	Global Telecom Business
GTB Innovation Award • Wholesale Service Innovation Award	PCCW Global & HKT Payment	GTB Telecoms Innovation Summit and Awards 2017
Highest Service Hour Award 2016 • Private Organisations – Category 1 – Merit	Volunteer team of HKT and PCCW	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
HK 50+ Award 2017 • Telecommunication Category	csl	Christian Family Service Centre



PCCW Global & HKT Payment win the Wholesale Service Innovation Award at the GTB Innovation Award.

Award	Awardee	Scheme Organizer
HKACE Customer Service Excellence Award 2016 <ul style="list-style-type: none"> Outstanding Customer Service Program Award – Silver Service Appreciation Award – Merit Service Innovation Award – Merit Team Award – Contact Centre Service – Merit Team Award – Counter Service – Bronze Team Award – Internal Support Service – Merit Individual Award – Counter Service – Bronze Individual Award – Internal Support Service – Silver 	HKT HKT staff members	Hong Kong Association for Customer Service Excellence
HKIA Customer Service Excellence Programme 2017 <ul style="list-style-type: none"> Corporate Excellence Award Individual Excellence Award 	1010 staff members	The Airport Authority Hong Kong
HKIA Environmental Management Recognition Scheme <ul style="list-style-type: none"> Good Class 	1010 Airport Shop	Airport Authority Hong Kong and Hong Kong Productivity Council
HKIRC Best Register Award	HKT	Hong Kong Internet Registration Corporation Limited
HKMA Award for Excellence in Training and Development 2017 <ul style="list-style-type: none"> Outstanding New Trainer Award 	HKT staff member	The Hong Kong Management Association
HKMA/TVB Awards for Marketing Excellence 2017 <ul style="list-style-type: none"> Campaign Awards – Gold Award 	1010	The Hong Kong Management Association
HKRMA Mystery Shopper Program <ul style="list-style-type: none"> Service Category Leader – Telecommunications Category (Jan – Mar 2017) 2017 Service Retailers of the Year – Category Award – Telecommunications Category 	1010	Hong Kong Retail Management Association



At the HKMA/TVB Awards for Marketing Excellence 2017, 1010 wins the Campaign Awards – Gold Award.

AWARDS (CONTINUED)

Award	Awardee	Scheme Organizer
<p>Hong Kong Awards for Environmental Excellence 2016</p> <ul style="list-style-type: none"> • Media and Communication – Gold Award 	HKT	Environmental Campaign Committee, Environmental Protection Department and 9 organizations
<p>2017 Hong Kong Awards for Industries</p> <ul style="list-style-type: none"> • Customer Service Award – Certificate of Merit 	Smart Warranty	Trade and Industry Department and Hong Kong Retail Management Association
<p>Hong Kong Call Centre Association Awards 2017</p> <ul style="list-style-type: none"> • Best Contact Centre Campaign – Bronze • Best Contact Centre Campaign – Bronze • Best Contact Centre in Quality Assurance – Bronze • Best Contact Centre in Quality Assurance – Gold • Inbound Contact Centre of the Year (50–100 Seats) – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Best Contact Centre in Quality Assurance – Silver • Best Contact Centre in Training and People Development – Silver • Best Contact Centre in Omni-channel Deployment – Gold • Person-to-person Telemarketing Code of Practice Certified Companies • Inbound Contact Centre of the Year (20–50 Seats) – Silver • Inbound Contact Centre of the Year (20–50 Seats) – Bronze 	<p>HKT Consumer Group – Field Referral Program HKT Consumer Group – Now TV Sales Program HKT Consumer Group – Process Planning HKT Engineering – Diamond Commercial Contact Centre</p> <p>HKT Consumer Group – Quality Assurance Team HKT Consumer Group</p> <p>HKT Teleservices</p> <p>HKT Consumer Group – Email/eChannel Team HKT Consumer Group – Relocation Centre</p>	Hong Kong Call Centre Association



HKT receives the Gold Award in the Media and Communication Sector of the Hong Kong Awards for Environmental Excellence 2016.



HKT sweeps a total of 49 awards, including 30 corporate and 19 individual awards at the Hong Kong Call Centre Association Awards 2017.

Award	Awardee	Scheme Organizer
<ul style="list-style-type: none"> • Inbound Contact Centre of the Year (20–50 Seats) – Gold • Inbound Contact Centre of the Year (50–100 Seats) – Bronze • Mystery Caller Assessment Award – Telecommunications – Best-in-class • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Mystery Caller Assessment Award – Telecommunications – Gold • Outbound Contact Centre of the Year (20–50 Seats) – Bronze • Outbound Contact Centre of the Year (Below 20 Seats) – Silver • Outbound Contact Centre of the Year (Below 20 Seats) – Bronze • Person-to-person Telemarketing Code of Practice Certified Companies • Contact Centre Quality Assurance Professional of the Year – Gold • Contact Centre Technical Support Professional of the Year – Gold • Contact Centre Technical Support Professional of the Year – Silver • Contact Centre Trainer of the Year – Silver • English Speaking Contact Centre Representative of the Year – Bronze • Inbound Contact Centre Manager of the Year – Merit 	<p>HKT Engineering – Enterprise Contact Centre HKT Consumer Group – Fixed Line Customer Service Hotline HKT Consumer Group – Now TV Call Centre Sales</p> <p>csl – 1010 Corporate Account Service</p> <p>HKT Consumer Group – Digital Sales HKT Consumer Group – Language Center HKT Consumer Group – NETVIGATOR Broadband Upgrade Hotline HKT Consumer Group – NETVIGATOR CS Live Chat HKT Consumer Group – NETVIGATOR Customer Service HKT Consumer Group – Now TV Technical Support HKT Consumer Group – Smart Living Dedicated Hotline HKT Engineering – Enterprise Contact Centre HKT Consumer Group – NETVIGATOR Outbound Sales HKT Consumer Group – LTS Retention Outbound HKT Consumer Group – Process Planning HKT</p> <p>HKT Consumer Group staff members</p>	

Award	Awardee	Scheme Organizer
<ul style="list-style-type: none"> • Inbound Contact Centre Manager of the Year – Merit • Inbound Contact Centre Representative of the Year – Merit • Inbound Contact Centre Team Leader of the Year – Bronze • Inbound Contact Centre Team Leader of the Year – Merit • Inbound Contact Centre Team Leader of the Year – Silver • Outbound Contact Centre Manager of the Year – Bronze • Outbound Contact Centre Representative of the Year – Bronze • Outbound Contact Centre Team Leader of the Year – Bronze • Contact Centre Quality Assurance Professional of the Year – Silver • Inbound Contact Centre Manager of the Year – Silver • Inbound Contact Centre Representative of the Year – Merit • Multi-media Contact Center Representative of the Year – Bronze • Outbound Contact Centre Representative of the Year – Silver 	<p>HKT Engineering staff member HKT Teleservices staff members</p>	
<p>Hong Kong Digital Brand Awards 2017</p> <ul style="list-style-type: none"> • Best Business Wi-Fi Solution • Best Cloud Solutions Services • Best ICT Service Provider • Best Fiber Broadband Service • Best Mobile Network Service • Best Smart Living Service 	<p>HKT</p> <p>NETVIGATOR csl Smart Living</p>	<p>The Chamber of Hong Kong Computer Industry and Metro Radio</p>



At the Hong Kong Digital Brand Awards 2017, HKT wins the Best Business Wi-Fi Solution, the Best Cloud Solutions Services and the Best ICT Service Provider awards.

Award	Awardee	Scheme Organizer
Hong Kong Green Organisation	HKT	Environmental Campaign Committee, Environmental Protection Department and 9 organizations
Hong Kong Service Awards 2017 <ul style="list-style-type: none"> • Internet Service • Long Distance Call • Mobile Service • Smart Living 	NETVIGATOR IDD 0060 1010 Smart Living	<i>East Week</i>
2016–2017 Hong Kong Smiling Enterprise Award <ul style="list-style-type: none"> • Smiling Enterprise Award – Telecommunications • Smiling Enterprise Merit Award – Telecommunications – Mobile • Smiling Employer Outstanding Award • Smiling Enterprise Outstanding Award – Telecommunications – Mobile • Smiling Staff Award • Smiling Supervisor Outstanding Award • Smiling Supervisor Award 	HKT shop csl 1010 HKT shop, 1010 & csl staff members 1010 staff member HKT shop & csl staff members	Mystery Shopper Service Association
Hong Kong Sustainability Award 2016/17 <ul style="list-style-type: none"> • Certificate of Excellence – Large Organization 	HKT	The Hong Kong Management Association
iChoice Award 2017 <ul style="list-style-type: none"> • The Most Favourite LTE Service Provider • The Most Favourite Mobile Network Service Provider • Supreme Marketing Award (Digital) • The Most Favourite Membership Program 	csl The Club	iChoice
Market Leadership Award 2016 <ul style="list-style-type: none"> • CMO Marketer of the Year • Industry Award – Market Leadership in Mobile Telecommunications 	csl staff member 1010	Hong Kong Institute of Marketing



NETVIGATOR wins the Hong Kong Service Awards 2017 - Internet Service award.

AWARDS (CONTINUED)

Award	Awardee	Scheme Organizer
<ul style="list-style-type: none"> Industry Award – Market Leadership in Telecommunications 	HKT	
MEF Excellence Awards 2017 <ul style="list-style-type: none"> Best Wholesale Service Provider – Global 	PCCW Global	MEF
Metro Awards For Brand Excellence 2016 <ul style="list-style-type: none"> Best Home Broadband Service Provider Best Mobile Service Provider Best Smart Living Product 	NETVIGATOR csl Smart Living	<i>Metro Daily & Metro Prosperity</i>
Metro Award For Service Excellence 2017 <ul style="list-style-type: none"> Excellence in Business Broadband Network Service Supplier Excellence in Mobile Network Communication Services 	HKT 1010	<i>Metro Daily & Metro Prosperity</i>
Metro Creative Awards 2017 <ul style="list-style-type: none"> The Best Creative Ad The Best Creative Ad The Best Digital Campaign The Best Integrated Campaign 	1010 NETVIGATOR csl	<i>Metro Daily</i>
2016 MTR Malls Quality Service Scheme Award <ul style="list-style-type: none"> Household, Electrical Appliances & Telecommunications Category 	HKT	MTR Corporation Limited
Mystery Shopper Programme – conducted from Jan to Mar 2017 <ul style="list-style-type: none"> Service Category Leaders – Telecommunications 	1010	Hong Kong Retail Management Association
Outstanding QTS Merchant Award 2017 <ul style="list-style-type: none"> AV, Computer & Telecom Products – Silver 	csl	Hong Kong Tourism Board
Outstanding QTS Merchant Service Staff Award 2017 <ul style="list-style-type: none"> Front-line staff – AV, Computer & Telecom Products – Gold Supervisory – AV, Computer & Telecom Products – Gold Front-line staff – AV, Computer & Telecom Products – Silver Supervisory – AV, Computer & Telecom Products – Silver 	HKT shop staff members csl staff members	Hong Kong Tourism Board
2017 Partner of the Year Award <ul style="list-style-type: none"> Hong Kong SAR Partner of the Year Top CSP (Cloud Solution Provider) Direct Provider 	HKT	Microsoft
2017/18 Partner Employer Award	HKT	The Hong Kong General Chamber of Small and Medium Business
Power Smart Energy Saving Contest 2016 <ul style="list-style-type: none"> Biggest Unit Saver Award (Organization) – Champion 	HKT	Friends of the Earth (HK)

Award	Awardee	Scheme Organizer
2017 Retail and Service Star Awards <ul style="list-style-type: none"> • Cordial Attitude Award • High Flyer Star Award • Vibrant Star – Merit Award 	csl staff member HKT shop staff member HKT shop and csl staff members	<i>JF Digital</i>
2017 Service & Courtesy Award <ul style="list-style-type: none"> • Company Award – Best Service Outlets – Certificates of Merit • Company Award – The Most Popular Outlet Award • Company Award – Best Service Outlets – Certificates of Merit • Company Award – Best Service Outlets – Silver Award • Company Award – The Potential Brand Award – Gold Award • Excellent Service Star • Outstanding Performance Award – Junior Frontline Level – Telecommunications Category • Individual Award – Earn & Learn Student Category – Gold Award • Individual Award – Junior Frontline Level – Telecommunications Category • Individual Award – Supervisory Level – Telecommunications Category • Outstanding Performance Award – Junior Frontline Level – Telecommunications Category • Individual Award – Junior Frontline Level – Quality Living Category • Individual Award – Supervisory Level – Retail (Services) Category • Individual Award – Junior Frontline Level – New Participating Brands Category – Gold Award • Individual Award – Junior Frontline Level – New Participating Brands Category – Bronze Award • Individual Award – Supervisory Level – New Participating Brands Category – Gold Award 	HKT – Sheung Wan Customer Service Center Smart Living Store HKT – Tuen Mun Town Plaza HKT shop Smart Living HKT shop staff members csl staff members HKT – Customer Service Center staff members Smart Living staff members	Hong Kong Retail Management Association
Sing Tao Services Awards 2016 <ul style="list-style-type: none"> • Telecom Service Provider 	1010	<i>Sing Tao Daily</i>
SMBWorld Awards 2017 <ul style="list-style-type: none"> • Best Business Internet Broadband • Best SMB Cloud Storage • Best SMB Partner (Retail Solutions) • Tech Company of the Year (SMB Market) • Best Corporate Mobile Service Provider • Best SMB Partner (e-Payment Solutions) 	HKT 1010 HKT Payment	<i>SMBWorld</i>
Telecom Review Summit Excellence Awards 2017 <ul style="list-style-type: none"> • Best International Service Provider 	PCCW Global	Telecom Review
Telecoms World Middle East 2017 <ul style="list-style-type: none"> • Best International Wholesale Carrier 	PCCW Global	Terrapinn

AWARDS (CONTINUED)

Award	Awardee	Scheme Organizer
<p>Telford Plaza Happy Staff Voting Campaign 2017</p> <ul style="list-style-type: none"> • The Best Smile Award • The Best Service Award 	csl staff members	MTR Corporation Limited
<p>Tiptop Service Award 2016–2017</p> <ul style="list-style-type: none"> • Persistently Outstanding Service Company of the Year • Persistently Outstanding Service Outlet of the Year 	HKT – Customer Service Center	Tiptop Consultants Ltd.
<p>The 8th Hong Kong Outstanding Corporate Citizenship</p> <ul style="list-style-type: none"> • Volunteer Team – Silver Award 	Volunteer team of HKT and PCCW	The Hong Kong Productivity Council
<p>The 16th Hong Kong Occupational Safety & Health Award</p> <ul style="list-style-type: none"> • Safety Enhancement Program Award – Silver 	HKT	Occupational Safety & Health Council
<p>The 17th CAPITAL Outstanding Enterprise Awards</p> <ul style="list-style-type: none"> • Outstanding Fixed Line Service Provider 	HKT	<i>CAPITAL</i>
<p>The 21st Outstanding Volunteer Award Scheme</p> <ul style="list-style-type: none"> • Corporate Caring Award 	HKT	Hong Kong Sheng Kung Hui Welfare Council
<p>The Best SME Partners 2017</p> <ul style="list-style-type: none"> • ICT Service Provider • Internet Service Provider • Mobile Communications Service Provider 	HKT 1010	<i>Economic Digest</i>
<p>The Distinguished SME Partners Award 2017</p> <ul style="list-style-type: none"> • The Distinguished Commercial Internet Services • The Distinguished Information and Communications Technology • The Distinguished Enterprise Mobile Services 	HKT 1010	<i>Hong Kong Economic Journal</i> and PR Asia Consultants Limited



HKT receives the Safety Enhancement Program Award – Silver award of The 16th Hong Kong Occupational Safety & Health Award.

Award	Awardee	Scheme Organizer
<p>The Outstanding Brand Awards 2017</p> <ul style="list-style-type: none"> • Best Corporate Mobile Services Provider 	1010	<i>Economic Digest</i>
<p>2017 Top Ranking Performers Award 'Best in Asia Pacific' Contact Center Awards</p> <ul style="list-style-type: none"> • Best Community Spirit (In-house) – Runner-Up • Best Contact Center Small (In-house) – Gold Medal • Best Contact Center Small (In-house) – Bronze Medal • Best Outbound Campaign (In-house) – Silver Medal • Best Recruitment Campaign (In-house) – Silver Medal • Best Sales Campaign – Inbound or Outbound (In-house) – Gold Medal • Best Technology Innovation – Internal Solution Small-Medium (In-house) – Silver Medal • Dream Team Award • Best Contact Center Operational Manager (In-house) – Gold Medal • Best Contact Center Sales Professional (In-house) – Runner-Up • Best Contact Center Supervisor (In-house) – Bronze Medal • Best Contact Center Support Professional – Workforce Planning (In-house) – Bronze Medal • Best Contact Center Supervisor (In-house) – Runner-Up • Best Customer Service Professional (In-house) – Runner-Up • Best Sales Manager (In-house) – Gold Medal 	<p>HKT</p> <p>HKT staff members</p>	ContactCenterWorld.com
<p>2017 Top Ranking Performers Award – Global Champion</p> <ul style="list-style-type: none"> • Best Contact Center Small (In-house) – Gold Medal • Best Sales Campaign – Inbound or Outbound (In-house) – Gold Medal • Best Sales Manager (In-house) – Gold Medal • Best Contact Center Operational Manager (In-house) 	HKT staff members	ContactCenterWorld.com
<p>Top Service Awards 2017</p> <ul style="list-style-type: none"> • Mobile Network Service Operators Category – Grand Award • Best Staff Award 	<p>csl</p> <p>csl staff member</p>	Next Magazine

AWARDS (CONTINUED)

Award	Awardee	Scheme Organizer
TOUCH Brands 2017	csl NETVIGATOR Smart Living The Club	East TOUCH
U Magazine Travel Awards 2017 • U Favorite Social Media Platform – Mobile Service • U Favorite Travel Product – Roaming Service	csl	U Travel
World Communications Award 2017 • The Moving Picture Award	PCCW Global	Total Telecom
Yahoo Big Idea Chair Awards 2017 • Best Branding Campaign – Merit	csl	Oath:



PCCW Global wins The Moving Picture Award at the World Communications Award 2017.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Executive Chairman

Mr Li, aged 51, was appointed the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Executive Committee and a member of the Nomination Committee of the HKT Board. Mr Li has also been an Executive Director and the Chairman of PCCW Limited (PCCW) since August 1999, the Chairman of PCCW's Executive Committee and a member of the Nomination Committee of the board of directors of PCCW. He is also the Chairman and Chief Executive of the Pacific Century Group, an Executive Director and the Chairman of Pacific Century Premium Developments Limited (PCPD), the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, the Chairman and an Executive Director of Singapore-based Pacific Century Regional Developments Limited (PCRD), and the Chairman of PCRD's Executive Committee.

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

Alexander Anthony ARENA

Group Managing Director

Mr Arena, aged 66, has been the Group Managing Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. He is also a member of HKT's Executive Committee and holds directorships in various Group companies. Mr Arena is primarily responsible for the overall corporate management, planning, operation and development of the Group. Mr Arena is also a Non-Executive Director of Pacific Century Regional Developments Limited. Prior to the spin-off and separate listing of HKT, Mr Arena was an Executive Director of PCCW Limited (PCCW) from August 1999 to November 2011 and the Group Managing Director of PCCW from April 2007 to November 2011. He was also the Group Chief Financial Officer of PCCW from June 2002 to April 2007. Mr Arena was also the Deputy Chairman of PCCW's Executive Committee, a member of PCCW's Regulatory Compliance Committee, an Executive Director and Deputy Chairman of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee prior to November 2011.

Prior to joining the Pacific Century Group in 1998, Mr Arena was a Special Policy Adviser to the Hong Kong Government from 1997 to 1998. From 1993 to 1997, he was the Director-General of Telecommunications at the Office of the Telecommunications Authority (OFTA) of Hong Kong, as well as a member of the Broadcasting Authority of Hong Kong.

Before taking up his post at OFTA, Mr Arena was appointed by the Hong Kong Government to plan a reform program for the liberalization of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he served as an inaugural member of the Australian Telecommunications Authority for four years. Mr Arena has led an extensive career in public administration, specializing in high technology and infrastructure industries. From a practicing radio/communications engineer to a public policy maker, his experience spans such diverse areas as commercialization of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

Mr Arena completed a bachelor's degree in electrical engineering from the University of New South Wales, Australia in 1972 and graduated in 1973. He completed an MBA at the University of Melbourne, Australia in 1977 and graduated in 1978. He has been a Fellow of the Hong Kong Institution of Engineers since 2001.

HUI Hon Hing, Susanna

Group Chief Financial Officer

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

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

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

NON-EXECUTIVE DIRECTORS

Peter Anthony ALLEN

Non-Executive Director

Mr Allen, aged 62, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is a member of HKT's Audit Committee and the Trustee-Manager's Audit Committee. He is an Executive Director and the Group Managing Director of Pacific Century Regional Developments Limited, an Executive Director and the Chief Financial Officer of the Pacific Century Group, a Director of certain FWD group companies and Senior Advisor to PCCW Limited (PCCW). He is also a Director of certain other companies controlled by Mr Li Tzar Kai, Richard, the Executive Chairman of HKT and the Trustee-Manager. Mr Allen was an Executive Director of PCCW from August 1999 to November 2011.

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

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

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

CHUNG Cho Yee, Mico

Non-Executive Director

Mr Chung, aged 57, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. Mr Chung was a Non-Executive Director of PCCW Limited (PCCW) from May 2010 to November 2011. He was an Executive Director of PCCW from November 1996 who was responsible for merger and acquisition activities and was re-designated to a Non-Executive Director of PCCW in May 2010. He joined the Pacific Century Group in March 1999.

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

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

LU Yimin

Non-Executive Director

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

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

For identification only

Mr Lu joined China Network Communications Group Corporation (CNC) in December 2007, serving as senior management. Prior to joining CNC, Mr Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005.

Mr Lu is a researcher level senior engineer and has extensive experience in government administration and business management. He graduated from Shanghai Jiao Tong University in 1985 with a bachelor's degree in computer science and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University in the United States.

LI Fushen
Non-Executive Director

Mr Li, aged 55, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is a member of HKT's Regulatory Compliance Committee. Mr Li became a Non-Executive Director of PCCW Limited (PCCW) in July 2007. He is a member of the Nomination Committee of the board of directors of PCCW.

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

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

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

Srinivas Bangalore GANGAIAH
(aka BG Srinivas)
Non-Executive Director

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

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

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

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

[#] For identification only

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor CHANG Hsin Kang,

FREng, GBS, JP

Independent Non-Executive Director

Professor Chang, aged 77, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Regulatory Compliance Committee, a member of HKT's Audit Committee, Remuneration Committee and Nomination Committee, and a member of the Trustee-Manager's Audit Committee. Professor Chang was an Independent Non-Executive Director of PCCW Limited from October 2000 to November 2011.

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

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

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

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

Sunil VARMA

Independent Non-Executive Director

Mr Varma, aged 74, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is also the Chairman of both HKT's Audit Committee and the Trustee-Manager's Audit Committee and a member of HKT's Nomination Committee, Remuneration Committee and Regulatory Compliance Committee.

Mr Varma is a certified chartered accountant as well as a cost and management accountant. He has extensive working experience of over 40 years including with Price Waterhouse Management Consultants and the IBM Consulting Group, specializing in management and business-problem consulting. He was the partner responsible for establishing and developing the Price Waterhouse consulting practice in Indonesia and was the Head of the Price Waterhouse consulting practice in Hong Kong until 1994. Mr Varma was the Vice President and Principal responsible for the IBM Consulting Group in India between

1996 and 1998. He was the Interim Chief Financial Officer and Managing Director of Asia Online, Ltd. from 1999 to 2000 and was the Interim Chief Financial Officer of HCL – Perot Systems in India in 2003.

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

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

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

Aman MEHTA

Independent Non-Executive Director

Mr Mehta, aged 71, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in May 2014. He is the Chairman of HKT's Nomination Committee. Mr Mehta has been an Independent Non-Executive Director of PCCW Limited (PCCW) since February 2004. He is also the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the board of directors of PCCW.

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

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

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

Following his retirement in December 2003, Mr Mehta took up residence in New Delhi. He is an Independent Director on the board of several public companies and institutions in India and internationally. He is an Independent Non-Executive Director of Tata Consultancy Services Limited, Godrej Consumer Products Limited, Wockhardt Limited, Tata Steel Limited and Vedanta Limited in Mumbai, India; and Max Financial Services Limited (formerly Max India Limited) in New Delhi, India. He was an Independent Non-Executive Director of Emaar MGF Land Limited, Jet Airways (India) Limited, Cairn India Limited and Vedanta Resources plc; and an Independent Director on the Supervisory Board of ING Groep N.V., a Netherlands company.

Mr Mehta is also a member of the Governing Board of Indian School of Business, Hyderabad, and a member of the Advisory Panel of Prudential Financial, Inc. in the United States.

Frances Waikwun WONG

Independent Non-Executive Director

Ms Wong, aged 56, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in May 2015. She is the Chairwoman of HKT's Remuneration Committee. Ms Wong has been an Independent Non-Executive Director of PCCW Limited (PCCW) since March 2012

and is the Chairwoman of the Regulatory Compliance Committee and a member of the Nomination Committee and the Remuneration Committee of the board of directors of PCCW. She is also an Independent Non-Executive Director of Pacific Century Regional Developments Limited.

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

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

COMBINED CORPORATE GOVERNANCE REPORT

The board of directors of HKT Management Limited (the “Trustee-Manager”, in its capacity as the trustee-manager of the HKT Trust) (the “Trustee-Manager Board”) and the board of directors of HKT Limited (the “Company”) (the “Company Board”) (together, the “Boards”) present the corporate governance report of the HKT Trust and the Company on a combined basis for the year ended December 31, 2017.

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

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

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

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

CORPORATE STRATEGY

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

CORPORATE GOVERNANCE CODE

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

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

The HKT Trust and the Company have adopted the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules as the corporate governance code of the HKT Trust and the Company. The HKT Trust and the Company have applied the principles, and complied with all relevant code provisions of the CG Code in each case as set out in Appendix 14 to the Listing Rules during the year ended December 31, 2017, save and except for the code provisions set out below. The requirement to establish a separate Remuneration Committee with written terms of reference for the Trustee-Manager under the code provision B.1.2 of the CG Code is not relevant to the Trustee-Manager as its directors are not entitled to any remuneration under the Trust Deed, and therefore has not been complied with. In addition, given the unique circumstances of the HKT Trust i.e., the fact that the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals, the establishment of a separate Nomination Committee for the Trustee-Manager as required by code provision A.5.1 of the CG Code is not relevant to the Trustee-Manager, and therefore has not been complied with.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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

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

The interests and short positions of the directors and the chief executives of the Trustee-Manager and the Company in the share stapled units (the “Share Stapled Units”) and underlying Share Stapled Units jointly issued by the HKT Trust and the Company; and the shares, underlying shares and debentures of the Company and its associated corporations have been disclosed in the Combined Report of the Directors on pages 60 to 82 of this annual report.

BOARDS OF DIRECTORS

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

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

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

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

BOARDS OF DIRECTORS (CONTINUED)

- those functions and matters as set out in the terms of reference of various committees (where applicable) (as amended from time to time) for which Trustee-Manager Board approval must be sought from time to time;
- consideration and approval of the financial statements of the HKT Trust and the Trustee-Manager in the interim and annual reports, and announcements of interim and annual results;
- consideration of distributions to holders of Share Stapled Units; and
- monitoring of the corporate governance practices and procedures; and maintenance of appropriate and effective risk management and internal control systems of the HKT Trust to ensure compliance with applicable rules and regulations.

The Executive Chairman and the Group Managing Director of the Trustee-Manager and the Company are Li Tzar Kai, Richard and Alexander Anthony Arena respectively. The role of the Executive Chairman is separate from that of the Group Managing Director. The Executive Chairman is responsible for ensuring the Boards function effectively, providing leadership for the Boards in setting objectives and strategies, and ensuring good corporate governance practices are enforced. The Group Managing Director is responsible for leading the management of the Trustee-Manager and the Company in conducting their business affairs in accordance with the Group's objectives, and implementing the Group's strategies and policies. Details of the composition of the Boards are set out in the Combined Report of the Directors on pages 60 to 82 of this annual report.

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

The directors of the Trustee-Manager and the Company acknowledge their responsibility for preparing the financial statements of, respectively, the HKT Trust and HKT Limited, and the Trustee-Manager for each financial year, which give a true and fair view of the financial position of the Group and of the HKT Limited Group and of the Trustee-Manager, and of the financial performance and cash flows of the Group and of the HKT Limited Group and of the Trustee-Manager, for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2017, the directors of the Trustee-Manager and the Company have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; stated the reasons for any significant departure from applicable accounting standards in Hong Kong; and have prepared the financial statements on a going-concern basis. The statements of the external auditor relating to its reporting responsibilities on the financial statements of the HKT Trust and HKT Limited, and the Trustee-Manager are respectively set out in the Independent Auditor's Reports on pages 83 to 88 and pages 184 to 185 of this annual report.

As at the date of this report, each of the Boards is comprised of 12 directors including three executive directors, five non-executive directors and four independent non-executive directors. At least one-third of the Boards are independent non-executive directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. Biographies of all the members of the Boards are set out on pages 25 to 29 of this annual report and are available on the Company's website (www.hkt.com). The relationships (including financial, business, family or other material or relevant relationships), if any, among members of the Boards have also been disclosed in the Combined Report of the Directors of this annual report.

BOARDS OF DIRECTORS (CONTINUED)

Board Composition

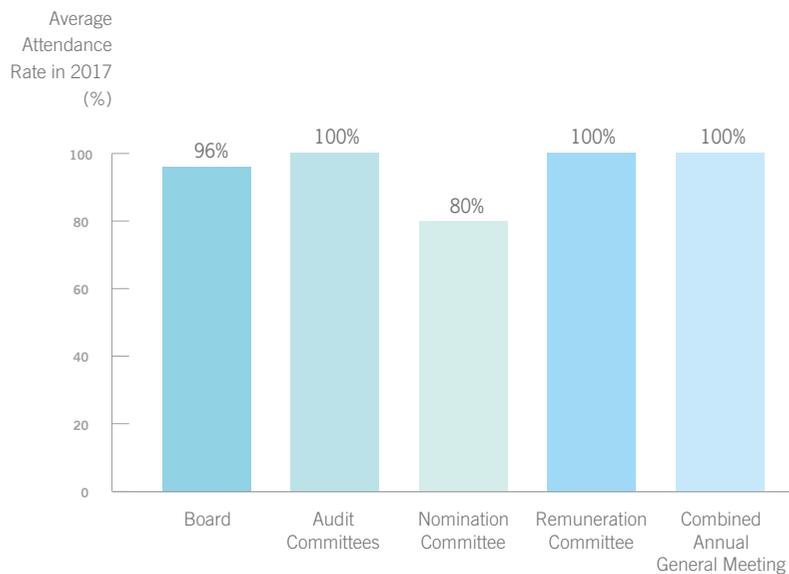


The Trustee-Manager and the Company have arranged appropriate directors and officers liability insurance cover for their directors and officers.

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

The Boards each held four meetings in 2017. The combined annual general meeting of unitholders of the HKT Trust and shareholders of the Company (the "Combined Annual General Meeting") was held on March 17, 2017 with the attendance of the external auditor to answer questions.

Details of the average meeting attendance rate in 2017 and the attendance of individual directors at the Boards and their respective committee meetings, and the Combined Annual General Meeting held in 2017 are set out below:



BOARDS OF DIRECTORS (CONTINUED)

Directors	Meetings attended/eligible to attend in 2017 (Note 1)						
	Company				Trustee-Manager		Combined Annual General Meeting
	Board	Audit Committee (Note 2)	Nomination Committee (Note 2)	Remuneration Committee (Note 2)	Board	Audit Committee (Note 3)	
Executive Directors							
Li Tzar Kai, Richard (Executive Chairman)	4/4	N/A	0/1	N/A	4/4	N/A	1/1
Alexander Anthony Arena (Group Managing Director)	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Hui Hon Hing, Susanna (Group Chief Financial Officer)	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Non-Executive Directors							
Peter Anthony Allen	4/4	3/3	N/A	N/A	4/4	3/3	1/1
Chung Cho Yee, Mico	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Lu Yimin	3/4	N/A	1/1	2/2	3/4	N/A	1/1
Li Fushen	3/4	N/A	N/A	N/A	3/4	N/A	1/1
BG Srinivas	4/4	N/A	N/A	N/A	4/4	N/A	1/1
Independent Non-Executive Directors							
Professor Chang Hsin Kang	4/4	3/3	1/1	2/2	4/4	3/3	1/1
Sunil Varma (Chairman of the Audit Committee of the Company and the Trustee-Manager)	4/4	3/3	1/1	2/2	4/4	3/3	1/1
Aman Mehta (Chairman of the Company's Nomination Committee)	4/4	N/A	1/1	N/A	4/4	N/A	1/1
Frances Waikwun Wong (Chairperson of the Company's Remuneration Committee)	4/4	N/A	N/A	2/2	4/4	N/A	1/1

Notes:

1. Directors may attend meetings in person or by means of telephone or other audio communications equipment in accordance with the Company's Amended and Restated Articles of Association (the "Company Articles") and the Trustee-Manager's Articles of Association (the "Trustee-Manager Articles").
2. For the composition of and the number of meetings held in 2017 by the Audit Committee, Nomination Committee and Remuneration Committee of the Company, please refer to the section headed "**Committees of the Company Board**" in this Combined Corporate Governance Report.
3. For the composition of and the number of meetings held in 2017 by the Audit Committee of the Trustee-Manager, please refer to the section headed "**Committee of the Trustee-Manager Board**" in this Combined Corporate Governance Report.

BOARDS OF DIRECTORS (CONTINUED)

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

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

In addition, according to the Company Articles, at each annual general meeting of the Company no less than one-third of the directors for the time being shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Company Articles, each non-executive director has a term of three years. Under the Trust Deed, the directors of the Trustee-Manager must be the same individuals who serve as directors of the Company at the relevant time; no person shall serve as a director of the Trustee-Manager unless he also serves as a director of the Company at the same time; and the office of a director of the Trustee-Manager shall be vacated if the relevant person ceases to be a director of the Company. These provisions are also contained in the Trustee-Manager Articles. Accordingly, the retirement by rotation provisions are also applicable, indirectly, in relation to the Trustee-Manager Board. Therefore, no director of either the Company or the Trustee-Manager will remain in office for a term of more than three years. The directors who shall retire from office of both the Company and the Trustee-Manager at the forthcoming Combined Annual General Meeting are set out in the Combined Report of the Directors on pages 60 to 82 of this annual report.

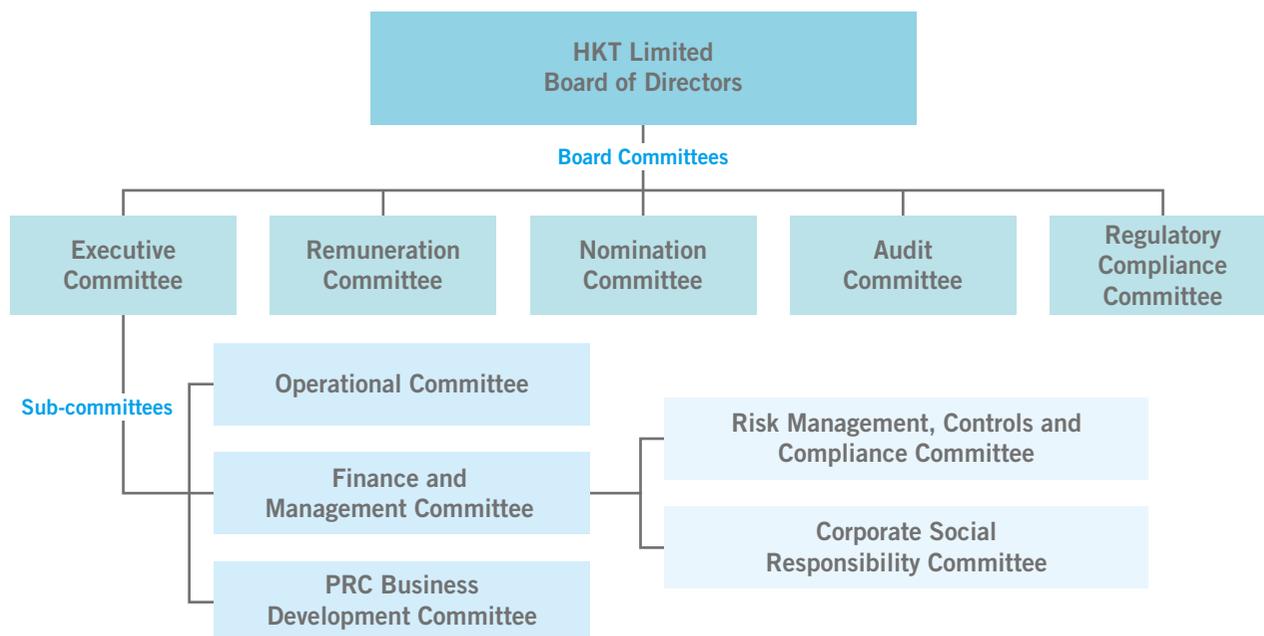
The Boards have a structured process to evaluate their own performance and directors' contribution on an annual basis including a self-evaluation questionnaire which is completed by all directors. The objectives of the evaluation are to assess whether the Boards and the committees, as well as the directors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

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

As part of an ongoing process of director's training, the directors of the Company and the Trustee-Manager are regularly updated of the legal and regulatory requirements relevant to their duties through their participation in the training seminars organized by the company secretary, and the operations, organization and governance policies of the Group through regular meetings with management. They are also provided with written materials from time to time to develop and refresh their knowledge and skills and regular updates on the Group's business. The company secretary organizes and arranges seminars presented by qualified professionals on relevant topics which will count towards continuous professional development training. During the year, all directors of the Company and the Trustee-Manager, namely, Li Tzar Kai, Richard, Alexander Anthony Arena, Hui Hon Hing, Susanna, Peter Anthony Allen, Chung Cho Yee, Mico, Lu Yimin, Li Fushen, BG Srinivas, Professor Chang Hsin Kang, Sunil Varma, Aman Mehta and Frances Waikwun Wong, have received the requisite director's training. The Company and the Trustee-Manager together have received confirmation from all directors of their respective training records for the year ended December 31, 2017.

COMMITTEES OF THE COMPANY BOARD



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

Executive Committee and Sub-committees

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

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

The members of the Executive Committee are:

Li Tzar Kai, Richard (*Chairman*)
 Alexander Anthony Arena
 Hui Hon Hing, Susanna
 Lu Yimin

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

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

COMMITTEES OF THE COMPANY BOARD (CONTINUED)

Executive Committee and Sub-committees (continued)

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

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

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

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

Remuneration Committee

The Company Board established the Remuneration Committee with effect from the Listing Date. The primary objective of the Remuneration Committee is to ensure that the Company is able to attract, retain and motivate high-caliber employees who will underpin the success of the Company and enhance the value of the Company for the benefit of the holders of Share Stapled Units.

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

The members of the Remuneration Committee are:

Frances Waikwun Wong (*Chairperson*)

Professor Chang Hsin Kang

Sunil Varma

Lu Yimin

COMMITTEES OF THE COMPANY BOARD (CONTINUED)

Remuneration Committee (continued)

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

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

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

The Remuneration Committee met twice in 2017. The attendance of individual directors at the committee meetings is set out on page 34 of this annual report.

The work performed by the Remuneration Committee during 2017 included:

- (i) review of the terms of reference of the Remuneration Committee;
- (ii) review and approval of the emoluments of executive directors and senior management, including 2016 performance bonus;
- (iii) review of the non-executive directors' fees for 2017; and
- (iv) review and approval of the 2017 business key performance indicators and performance bonus scheme for executive directors and senior management.

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

COMMITTEES OF THE COMPANY BOARD (CONTINUED)

Nomination Committee

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

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

The Nomination Committee conducted an annual review of the Company Board's composition taking into account the Board Diversity Policy at its meeting held on February 6, 2018 and formed the view that the Company Board has maintained an appropriate mix and balance of skills, knowledge, experience, expertise and diversity of perspectives appropriate to the business requirements of the Company.

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

The members of the Nomination Committee are:

Aman Mehta (*Chairman*)
Professor Chang Hsin Kang
Li Tzar Kai, Richard
Lu Yimin
Sunil Varma

The Nomination Committee met once in 2017. The attendance of individual directors at the committee meeting is set out on page 34 of this annual report.

The work performed by the Nomination Committee during 2017 included:

- (i) review of the terms of reference of the Nomination Committee;
- (ii) review and assessment of the independence of all independent non-executive directors of the Company;
- (iii) consideration and recommendation to the Company Board for approval the list of retiring directors of the Company for re-election at the Combined Annual General Meeting on March 17, 2017; and
- (iv) annual review of the structure, size and composition of the Company Board taking into account the Board Diversity Policy, with a recommendation to the Company Board for approval.

COMMITTEES OF THE COMPANY BOARD (CONTINUED)

Audit Committee

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

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

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

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

For the year ended December 31, 2017, the fees paid or payable in respect of audit, audit related and permissible non-audit services provided to the HKT Limited Group by the external auditor amounted to approximately HK\$11 million, HK\$1 million and HK\$1 million, respectively.

At its meeting held on February 6, 2018, the Audit Committee recommended to the Company Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2018 at the forthcoming Combined Annual General Meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor.

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

The members of the Audit Committee are:

Sunil Varma (*Chairman*)
Professor Chang Hsin Kang
Peter Anthony Allen

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports. During 2017, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 34 of this annual report.

The work performed by the Audit Committee during 2017 included:

- (i) review of the terms of reference of the Audit Committee;
- (ii) review of the annual report and the annual results announcement for the year ended December 31, 2016, with a recommendation to the Company Board for approval;

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Audit Committee *(continued)*

- (iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report to the Audit Committee and the management representation letter for the year ended December 31, 2016, with a recommendation to the Company Board for the re-appointment of PricewaterhouseCoopers at the 2017 Combined Annual General Meeting;
- (iv) review and assessment of the effectiveness of the risk management and internal control systems under the CG Code for the year ended December 31, 2016, with a recommendation to the Company Board for approval;
- (v) review of the continuing connected transactions (including PricewaterhouseCoopers' report on the continuing connected transactions) for the year ended December 31, 2016, with a recommendation to the Company Board for approval;
- (vi) review and approval of the Group Internal Audit reports (including the internal audit workplan) and the performance of the internal audit function during the year;
- (vii) review of the interim report and the interim results announcement for the six months ended June 30, 2017, with a recommendation to the Company Board for approval;
- (viii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report to the Audit Committee and the management representation letter for the six months ended June 30, 2017;
- (ix) review and approval of the audit strategy memorandum for the year ending December 31, 2017;
- (x) review and approval of PricewaterhouseCoopers' letters of engagement for the year ending December 31, 2017;
- (xi) review and approval of the update reports on the risk management and internal control systems during the year;
- (xii) review and approval of PricewaterhouseCoopers' pre-year end report to the Audit Committee for the year 2017;
- (xiii) consideration and approval of 2017 audit and non-audit services and the 2018 annual budget for audit and non-audit services;
- (xiv) review of the corporate governance report and practices for the year ended December 31, 2016 and the corporate governance disclosure for the six months ended June 30, 2017, with a recommendation to the Company Board for approval;
- (xv) review of the environmental, social and governance report for the year ended 31 December 2016, with a recommendation to the Company Board for approval;
- (xvi) review of the sufficiency of the existing annual caps of the continuing connected transactions for the provision of managed services and other telecommunications related services by the HKT Limited Group to the PCCW Limited Group; and consideration of the setting of new annual caps to meet the growing demand for the provision of customer premises equipment ("CPE") solutions and networking services by HKT Limited Group to PCCW Limited Group, in each case for the three financial years ending December 31, 2019, as well as the related announcement by HKT Trust and HKT Limited, with a recommendation to the Company Board for approval;
- (xvii) review of the results of the directors' self-evaluation and the board's self-assessment exercise for the year ended December 31, 2016 to evaluate the performance of the Company Board, its committees, and directors' contribution, with a recommendation to the Company Board for approval; and
- (xviii) review and monitoring of training and continuous professional development for directors and senior management.

Subsequent to the year end, the Audit Committee reviewed the annual report and the annual results announcement, as well as the report on the effectiveness of the risk management and internal control systems for the year ended December 31, 2017, with recommendations to the Company Board for approval.

COMMITTEES OF THE COMPANY BOARD (CONTINUED)

Regulatory Compliance Committee

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

The members of the Regulatory Compliance Committee are:

Professor Chang Hsin Kang (*Chairman*)

Sunil Varma

Li Fushen

COMMITTEE OF THE TRUSTEE-MANAGER BOARD



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

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

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

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

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

COMMITTEE OF THE TRUSTEE-MANAGER BOARD (CONTINUED)

For the year ended December 31, 2017, the fees paid or payable in respect of audit services provided to the HKT Trust and the Trustee-Manager by the external auditor amounted to approximately HK\$0.052 million.

At its meeting held on February 6, 2018, the Trustee-Manager Audit Committee recommended to the Trustee-Manager Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the HKT Trust and the Trustee-Manager for the financial year 2018 at the forthcoming Combined Annual General Meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor. Furthermore, the fees and expenses of the auditors of the HKT Trust and the Trustee-Manager in connection with the audit of the financial statements of the HKT Trust and the Trustee-Manager are to be paid out of the Trust Property (as defined in the Trust Deed). The Trust Deed also requires that the membership of the Trustee-Manager Audit Committee must be the same as the membership of the Audit Committee of the Company Board.

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

The members of the Trustee-Manager Audit Committee are:

Sunil Varma (*Chairman*)
Professor Chang Hsin Kang
Peter Anthony Allen

The Trustee-Manager Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports. During 2017, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 34 of this annual report.

The Trustee-Manager Audit Committee reviewed and noted the resolutions passed and matters approved and confirmed at the Audit Committee of the Company, whose work performed during 2017 and subsequent to the year end is set out under the heading of “**Audit Committee**” on pages 40 and 41 of this annual report, and where appropriate, approved and confirmed those items specific to the HKT Trust and the Trustee-Manager. Other work performed by the Trustee-Manager Audit Committee during 2017 included:

- (i) review of the terms of reference of the Trustee-Manager Audit Committee;
- (ii) review of the financial information of the Trustee-Manager for the year ended December 31, 2016, with a recommendation to the Trustee-Manager Board for approval;
- (iii) review and approval of PricewaterhouseCoopers’ confirmation of independence, its report to the Trustee-Manager Audit Committee and the management representation letter for the year ended December 31, 2016, with a recommendation to the Trustee-Manager Board for the re-appointment of PricewaterhouseCoopers at the 2017 Combined Annual General Meeting;
- (iv) review of the continuing connected transactions (including PricewaterhouseCoopers’ report on the continuing connected transactions) for the year ended December 31, 2016, with a recommendation to the Trustee-Manager Board for approval;
- (v) review and approval of the Group Internal Audit reports (including the internal audit workplan) and the performance of the internal audit function during the year;
- (vi) review of the financial information of the Trustee-Manager for the six months ended June 30, 2017, with a recommendation to the Trustee-Manager Board for approval;
- (vii) review and approval of PricewaterhouseCoopers’ confirmation of independence, its report to the Trustee-Manager Audit Committee and the management representation letter for the six months ended June 30, 2017;
- (viii) review and approval of the audit strategy memorandum for the year ending December 31, 2017;

COMMITTEE OF THE TRUSTEE-MANAGER BOARD (CONTINUED)

- (ix) review and approval of PricewaterhouseCoopers' letters of engagement for the year ending December 31, 2017;
- (x) review and approval of the update reports on the risk management and internal control systems during the year;
- (xi) review and approval of PricewaterhouseCoopers' pre-year end report to the Trustee-Manager Audit Committee for the year 2017; and
- (xii) review of the sufficiency of the existing annual caps of the continuing connected transactions for the provision of managed services and other telecommunications related services by the HKT Limited Group to PCCW Limited Group; and consideration of the setting of new annual caps to meet the growing demand for the provision of CPE solutions and networking services by HKT Limited Group to PCCW Limited Group, in each case for the three financial years ending December 31, 2019, as well as the related announcement by HKT Trust and HKT Limited, with a recommendation to the Trustee-Manager Board for approval.

Subsequent to the year end, the Trustee-Manager Audit Committee reviewed the annual report and the annual results announcement of the HKT Trust (including the financial information of the Trustee-Manager), as well as the report on the effectiveness of the risk management and internal control systems for the year ended December 31, 2017, with a recommendation to the Trustee-Manager Board for approval.

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

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



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

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

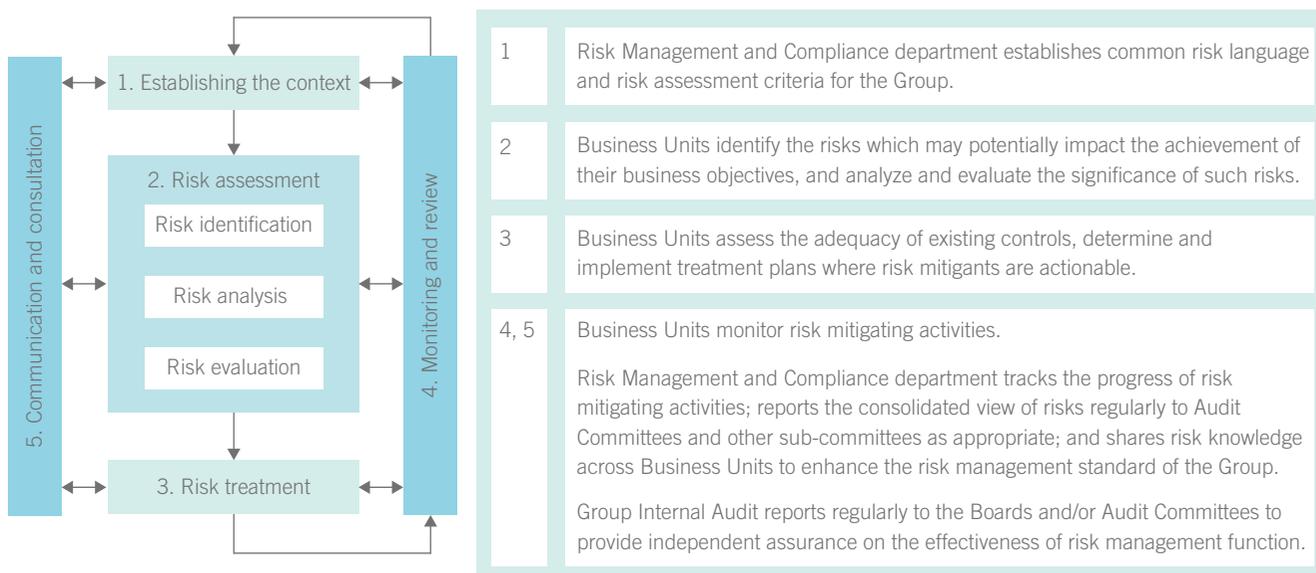
Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)



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

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

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

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

During 2017, the Risk Management and Compliance department has worked closely with the operating units, senior management, and the directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal controls with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company’s risk management system’s design, operation, and findings. The Risk Management and Compliance department has presented update reports to the Boards and the Audit Committees on the monitoring of the risk management and assisted the directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

During 2017, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions of the HKT Limited Group were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committees, which then reviewed and reported the same to the Boards. The Audit Committees and the Boards were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group (including the Trustee-Manager) and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

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

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

POTENTIAL CONFLICTS OF INTERESTS

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

- if a director has a conflict of interest in a matter to be considered by the Company Board or the Trustee-Manager Board which the relevant Board has determined to be material, the matter will be dealt with by a physical board meeting rather than a written resolution, and independent non-executive directors who, and whose close associates, have no material interest in the transaction must be present at that board meeting.
- in respect of matters in which PCCW and/or its subsidiaries have an interest, direct or indirect, any nominees appointed by PCCW and/or its subsidiaries to the Company Board or the Trustee-Manager Board to represent PCCW's (or its subsidiaries') interests will abstain from voting. In such matters, the quorum must comprise a majority of the independent non-executive directors and must exclude any nominee directors appointed by PCCW and/or its subsidiaries.
- where matters concerning the HKT Limited Group relate to transactions entered into or to be entered into with a related party of the Trustee-Manager (which would include relevant associates thereof), the HKT Trust or the Company, the relevant Board is required to consider the terms of the transactions to satisfy itself that the transactions are conducted on normal commercial terms, are not prejudicial to the interests of the HKT Limited Group and the holders of Share Stapled Units and are in compliance with applicable requirements of the Listing Rules and the Trust Deed relating to the transaction in question. The relevant Board will also review these contracts to ensure that they comply with the provisions of the Listing Rules and the Trust Deed relating to connected transactions (as may be amended from time to time) as well as any other guidelines as may from time to time be prescribed by the Securities and Futures Commission of Hong Kong and the Stock Exchange that are applicable to the HKT Trust.
- a regime for all of the existing continuing connected transactions has already been established, with the on-going requirement that all such transactions (other than those qualifying for an exemption) be reviewed and reported on annually by the independent non-executive directors and the external auditor.
- the HKT Trust and the Company has each established an Audit Committee in accordance with the Listing Rules to, amongst other matters, regularly review their respective risk management and internal control systems and internal audit reports.

COMPANY SECRETARY

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

During the year ended December 31, 2017, Ms Lomas has received no less than 15 hours of relevant professional training to refresh her skills and knowledge.

RIGHTS OF HOLDERS OF SHARE STAPLED UNITS

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

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

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

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

Procedures by which enquiries may be put to the Boards

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

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

INVESTOR RELATIONS AND COMMUNICATION WITH THE HOLDERS OF SHARE STAPLED UNITS

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

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

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

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

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their holdings in the Share Stapled Units, the business of the Company and the HKT Trust are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 195 of this annual report and also provided in the Unitholders Communication Policy.

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

CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2017, there were no changes to the Company Articles and the Trust Deed. An up to date consolidated version of these constitutional documents are available on the websites of the Company and HKEX.

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

Bernadette M. Lomas

Group General Counsel and Company Secretary

Hong Kong, February 6, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Total revenue (excluding Mobile handset sales) increased by 2% to HK\$30,898 million; Total revenue decreased by 2% to HK\$33,258 million
- Total EBITDA increased by 2% to HK\$12,997 million
- Profit attributable to holders of Share Stapled Units increased by 4% to HK\$5,097 million; basic earnings per Share Stapled Unit was 67.34 HK cents
- Adjusted funds flow for the year increased by 5% to HK\$4,912 million; adjusted funds flow per Share Stapled Unit was 64.87 HK cents
- Final distribution per Share Stapled Unit of 36.75 HK cents

MANAGEMENT REVIEW

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

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

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

Profit attributable to holders of Share Stapled Units was HK\$5,097 million, an increase of 4% over the previous year. Basic earnings per Share Stapled Unit was 67.34 HK cents.

Adjusted funds flow for the year ended December 31, 2017 reached HK\$4,912 million, an increase of 5% over the previous year. Adjusted funds flow per Share Stapled Unit³ was 64.87 HK cents, rising also by 5% over the previous year.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution of 36.75 HK cents per Share Stapled Unit for the year ended December 31, 2017. This brings the 2017 full-year distribution to 64.87 HK cents per Share Stapled Unit (comprising 28.12 HK cents as interim and 36.75 HK cents as final distribution) representing the full payout of the annual adjusted funds flow per Share Stapled Unit.

OUTLOOK

HKT has in the past year clearly demonstrated its operational resilience and ability to fend off aggressive price competition. While we will continue to be competitive on price, we will continue to innovate and provide the best customer experience, which we believe is the only key to sustainable business growth.

In particular, we will further develop our fiber network advantages for customer acquisition and upgrades, and offer mobile communications services, deployed on our fiber backbone, that are second to none. We will continue to groom our new businesses such as mobile payment for more organic growth of the Company in the future.

We are cognizant that the telecom market is likely to see further bouts of competitive behavior. As the leading operator in Hong Kong, and with a team dedicated to delivering the best products and services, we are confident that HKT will continue to be regarded by consumers and businesses as their most trustworthy telecom partner and we will continue to provide competitive services on a value-for-money basis.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK\$ million	2016			2017			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Revenue							
TSS	10,308	11,106	21,414	10,324	11,517	21,841	2%
Mobile	6,335	6,728	13,063	5,614	6,404	12,018	(8)%
– Mobile Services	4,558	5,080	9,638	4,587	5,071	9,658	–
– Handset Sales	1,777	1,648	3,425	1,027	1,333	2,360	(31)%
Other Businesses	118	119	237	125	124	249	5%
Eliminations	(373)	(494)	(867)	(414)	(436)	(850)	2%
Total revenue	16,388	17,459	33,847	15,649	17,609	33,258	(2)%
Cost of sales	(6,973)	(7,472)	(14,445)	(6,508)	(7,653)	(14,161)	2%
Gross Margin	57%	57%	57%	58%	57%	57%	
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment and intangible assets, net	(3,550)	(3,168)	(6,718)	(3,173)	(2,927)	(6,100)	9%
EBITDA¹							
TSS	3,681	3,990	7,671	3,720	4,096	7,816	2%
Mobile	2,439	3,074	5,513	2,504	3,253	5,757	4%
– Mobile Services	2,425	3,014	5,439	2,485	3,203	5,688	5%
– Handset Sales	14	60	74	19	50	69	(7)%
Other Businesses	(255)	(245)	(500)	(256)	(320)	(576)	(15)%
Total EBITDA¹	5,865	6,819	12,684	5,968	7,029	12,997	2%
TSS EBITDA¹ Margin	36%	36%	36%	36%	36%	36%	
Mobile EBITDA¹ Margin	39%	46%	42%	45%	51%	48%	
– Mobile Services EBITDA ¹ Margin	53%	59%	56%	54%	63%	59%	
– Handset Sales EBITDA ¹ Margin	1%	4%	2%	2%	4%	3%	
Total EBITDA¹ Margin	36%	39%	37%	38%	40%	39%	
Depreciation and amortization	(2,827)	(2,981)	(5,808)	(2,838)	(2,847)	(5,685)	2%
Gain/(loss) on disposal of property, plant and equipment and intangible assets, net	2	1	3	(1)	–	(1)	NA
Other gains/(losses), net	9	(60)	(51)	(2)	(143)	(145)	(184)%
Finance costs, net	(483)	(624)	(1,107)	(522)	(554)	(1,076)	3%
Share of results of associates and joint ventures	(8)	(15)	(23)	7	(17)	(10)	57%
Profit before income tax	2,558	3,140	5,698	2,612	3,468	6,080	7%

ADJUSTED FUNDS FLOW

For the year ended December 31, HK\$ million	2016			2017			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Total EBITDA¹	5,865	6,819	12,684	5,968	7,029	12,997	2%
Less cash outflows in respect of:							
Customer acquisition costs and licence fees	(1,381)	(2,078)	(3,459)	(1,510)	(2,200)	(3,710)	(7)%
Capital expenditures ⁶	(1,472)	(1,363)	(2,835)	(1,302)	(1,300)	(2,602)	8%
Adjusted funds flow before tax paid, net finance costs paid and changes in working capital	3,012	3,378	6,390	3,156	3,529	6,685	5%
Adjusted for:							
Tax payment	(81)	(470)	(551)	(141)	(570)	(711)	(29)%
Net finance costs paid	(414)	(370)	(784)	(418)	(412)	(830)	(6)%
Changes in working capital	(466)	94	(372)	(468)	236	(232)	38%
Adjusted funds flow²	2,051	2,632	4,683	2,129	2,783	4,912	5%
Annual adjusted funds flow per Share Stapled Unit (HK cents)³			61.85			64.87	

KEY OPERATING DRIVERS⁴

	2016		2017		Better/ (Worse) y-o-y
	H1	H2	H1	H2	
Exchange lines in service ('000)	2,650	2,648	2,645	2,638	–
Business lines ('000)	1,249	1,250	1,250	1,249	–
Residential lines ('000)	1,401	1,398	1,395	1,389	(1)%
Total broadband access lines ('000) (Consumer, business and wholesale)	1,569	1,567	1,572	1,591	2%
Retail consumer broadband access lines ('000)	1,405	1,401	1,407	1,423	2%
Retail business broadband access lines ('000)	144	148	149	154	4%
Traditional data (Exit Gbps)	4,378	5,171	6,552	7,121	38%
Retail IDD minutes (million minutes)	283	249	217	199	(22)%
Mobile subscribers ('000)	4,445	4,512	4,218	4,407	(2)%
Post-paid subscribers ('000)	3,106	3,130	3,168	3,217	3%
Prepaid subscribers ('000)	1,339	1,382	1,050	1,190	(14)%

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

^{Note 2} Adjusted funds flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRSs and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRSs, or an alternative to cash flow from operations or a measure of liquidity. The Group's adjusted funds flow is computed in accordance with the above definition using financial information derived from the Group's audited consolidated financial statements. The adjusted funds flow may be used for debt repayment.

^{Note 3} Annual adjusted funds flow per Share Stapled Unit is calculated by dividing the adjusted funds flow for the year by the number of Share Stapled Units in issue as at the respective year end.

^{Note 4} Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.

^{Note 5} Gross debt refers to the principal amount of short-term borrowings and long-term borrowings.

^{Note 6} Group capital expenditures represent additions to property, plant and equipment and interests in leasehold land.

Telecommunications Services

For the year ended December 31, HK\$ million	2016			2017			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
TSS Revenue							
Local Telephony Services	1,688	1,772	3,460	1,665	1,729	3,394	(2)%
Local Data Services	3,478	3,763	7,241	3,539	3,990	7,529	4%
International Telecommunications Services	3,612	3,772	7,384	3,555	3,827	7,382	–
Other Services	1,530	1,799	3,329	1,565	1,971	3,536	6%
Total TSS Revenue	10,308	11,106	21,414	10,324	11,517	21,841	2%
Cost of sales	(4,713)	(5,170)	(9,883)	(4,904)	(5,669)	(10,573)	(7)%
Operating costs before depreciation and amortization	(1,914)	(1,946)	(3,860)	(1,700)	(1,752)	(3,452)	11%
Total TSS EBITDA¹	3,681	3,990	7,671	3,720	4,096	7,816	2%
TSS EBITDA¹ margin	36%	36%	36%	36%	36%	36%	

TSS revenue for the year ended December 31, 2017 increased by 2% to HK\$21,841 million, and EBITDA for the year also increased by 2% to HK\$7,816 million, yielding a stable EBITDA margin of 36%.

Local Telephony Services. Local telephony services revenue was HK\$3,394 million for the year ended December 31, 2017, as compared to HK\$3,460 million a year earlier, reflecting the continued gradual decline in local fixed lines in service. Total fixed lines in service at the end of December 2017 were 2.638 million, as compared to 2.648 million a year ago.

Local Data Services. Local data services revenue, comprising broadband network revenue and local data revenue, increased by 4% to HK\$7,529 million for the year ended December 31, 2017. The broadband network business delivered further revenue growth of 3% in 2017 despite prevailing price focused competition. The growth in revenue was supported by a healthy number of net broadband customer additions and continued subscriptions and upgrades on our leading fiber-to-the-home (“FTTH”) service.

The total number of broadband access lines at the end of December 2017 grew by 2% to 1.591 million from 1.567 million as at the end of December 2016. Of these broadband access lines, there were 698,000 FTTH access lines which represented a net increase of 82,000 or 13% from a year earlier. During the year, HKT launched its innovative Multi-Use Broadband Service which we believe will drive further subscriptions and upgrades to the FTTH service.

As the leading services provider to the enterprise segment, our local data revenue increased by 6% during the year benefitting from the healthy enterprise demand for cross-border connectivity solutions and network facility management solutions integrating connectivity, cloud-based applications and ancillary co-location services.

International Telecommunications Services. International telecommunications services revenue for the year ended December 31, 2017 held steady at HK\$7,382 million, as compared to HK\$7,384 million a year earlier. Supported by the expanding reach of our global infrastructure, the international business is in the process of transforming to a comprehensive solutions provider to enterprise customers that integrates data connectivity and value added services such as unified communications and managed security under a simple self-ordering and auto-provisioning process, in order to offset the anticipated decline in the traditional wholesale voice business.

Other Services. Other services revenue primarily comprises revenue from the sales of network equipment and customer premises equipment (“CPE”), provision of technical and maintenance subcontracting services and contact centre services (“Teleservices”). Other services revenue for the year ended December 31, 2017 increased by 6% to HK\$3,536 million primarily due to increased sales of network equipment arising from the joint collaboration between HKT and PCCW Solutions to deliver network and infrastructure solutions to their enterprise customers. The increase was partially offset by the revenue slowdown in the Teleservices business due to temporary capacity rationalization in the mainland China contact centre market.

Mobile

For the year ended December 31, HK\$ million	2016			2017			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Mobile Revenue							
Mobile Services	4,558	5,080	9,638	4,587	5,071	9,658	–
Handset Sales	1,777	1,648	3,425	1,027	1,333	2,360	(31)%
Total Mobile Revenue	6,335	6,728	13,063	5,614	6,404	12,018	(8)%
Mobile EBITDA¹							
Mobile Services	2,425	3,014	5,439	2,485	3,203	5,688	5%
Handset Sales	14	60	74	19	50	69	(7)%
Total Mobile EBITDA¹	2,439	3,074	5,513	2,504	3,253	5,757	4%
Mobile EBITDA¹ margin	39%	46%	42%	45%	51%	48%	
Mobile Services EBITDA ¹ margin	53%	59%	56%	54%	63%	59%	
Handset Sales EBITDA ¹ margin	1%	4%	2%	2%	4%	3%	

Mobile services revenue for the year ended December 31, 2017 improved slightly to HK\$9,658 million, from HK\$9,638 million a year earlier. During the year, Mobile services revenue benefited from continued growth in the post-paid customer base, customers upgrading to our premium 1010 service, as well as demand for greater mobile data. However, such growth was moderated by the continued decline in IDD and roaming revenue and severe price discounting in the market. For the year ended December 31, 2017, IDD and roaming revenue accounted for 13% of Mobile services revenue, as compared to 14% a year earlier.

As such, the post-paid exit average revenue per user (“ARPU”) as at the end of December 2017 held firm at HK\$232, as compared to HK\$233 a year earlier.

As at December 31, 2017, the Mobile business had 3.217 million post-paid customers, an increase of 3% from a year earlier. The churn rate for post-paid customers also improved to 1.1% in 2017 from 1.3% a year earlier, reflecting the advantages of our multi-brand strategy, network supremacy and innovative service offerings such as The Club program.

During the year, the Mobile business witnessed an increase in the proportion of handset bundled plan subscriptions as customers took up our attractive offerings, which not only reduced the churn but also helped lift new customer acquisitions. The related customer acquisition and retention costs for the year were therefore higher.

Revenue from handset sales of HK\$2,360 million was recorded during the year, as compared to HK\$3,425 million a year earlier. This 31% decline reflects the continued elongation of the replacement cycle for mobile handsets.

Total Mobile EBITDA for the year increased by 4% to HK\$5,757 million, with the margin improving to 48% from 42% a year earlier partly due to a less significant dilution impact on the reduced contribution of handset sales revenue. More importantly, EBITDA for Mobile services increased by 5% to HK\$5,688 million, with the margin improving to 59% from 56% a year earlier due to the full year impact of the cost synergies from the integration of CSL Holdings Limited (“CSL”) which was completed in 2016, in particular savings from cell site rental, third-party backhaul and call centre integration, as well as additional operational efficiencies achieved during the year.

Other Businesses

Other Businesses primarily comprises new business areas such as the Tap & Go mobile payment service and The Club program, and corporate support functions. Revenue from Other Businesses was HK\$249 million for the year ended December 31, 2017, as compared to HK\$237 million a year ago. As at December 31, 2017, The Club program had approximately 2.303 million activated members.

Eliminations

Eliminations were HK\$850 million for the year ended December 31, 2017, as compared to HK\$867 million a year ago. This reflects the continued collaboration amongst HKT's various business segments to take advantage of our capabilities in offering integrated products and services to retail and enterprise customers.

Cost of Sales

Cost of sales for the year ended December 31, 2017 decreased by 2% to HK\$14,161 million, reflecting lower Mobile handset sales during the year. Gross margin was steady at 57% during the year.

General and Administrative Expenses

For the year ended December 31, 2017, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment and intangible assets, net, ("operating costs") improved by 9% to HK\$6,100 million as a result of the full year impact of the cost synergies from the CSL integration and sustained improvements in operating efficiencies in both the TSS and Mobile segments. Cost savings were successfully achieved in areas such as cell site rental, third-party backhaul, call centre integration, and publicity and promotion. Consequently, the operating costs to Mobile services revenue ratio for the Mobile business improved to 23.9% from 26.6% a year ago, while the operating costs to revenue ratio for the TSS business improved to 15.8% from 18.0% a year ago. Overall operating costs to revenue ratio, therefore, improved to 18.3% from 19.8% a year ago.

Depreciation expenses decreased by 4% as a result of the Group's periodic review of the useful lives of network assets, and amortization expenses also decreased by 2% as certain intangible assets arising from the CSL acquisition were fully amortized during the year. As a result, total depreciation and amortization expenses decreased by 2% to HK\$5,685 million for the year ended December 31, 2017.

General and administrative expenses, therefore, decreased by 6% to HK\$11,786 million for the year ended December 31, 2017.

EBITDA¹

As a result of the resilient performance in the TSS and Mobile businesses and the achievement of sustained operating efficiencies, overall EBITDA increased by 2% to HK\$12,997 million for the year ended December 31, 2017. The EBITDA margin improved to 39% from 37% a year ago.

Finance Costs, Net

Net finance costs for the year ended December 31, 2017 decreased by 3% to HK\$1,076 million from HK\$1,107 million a year ago, reflecting the recognition of certain hedging gains during the year which were partially offset by an increase in finance costs as a result of the increase in gross debt.

The average cost of debt increased to 2.6% during the year, as compared to 2.5% a year ago as a result of the increased proportion of fixed rated borrowings.

Income Tax

Income tax expense for the year ended December 31, 2017 was HK\$971 million, as compared to HK\$771 million a year ago, representing an effective tax rate of 16.0% for the year versus an effective tax rate of 13.5% a year ago. The increase in the income tax expense is due to the increase in taxable profits, the full utilization of the tax loss of a company in 2016 resulting from the CSL integration and a one-time non-cash charge due to a reassessment of deferred income tax assets associated with the enactment of the 2017 tax reform legislation in the United States.

Non-controlling Interests

Non-controlling interests of HK\$12 million (2016: HK\$38 million) primarily comprised the net profit attributable to the minority shareholders of Sun Mobile Limited.

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

Profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2017 increased by 4% to HK\$5,097 million (2016: HK\$4,889 million).

LIQUIDITY AND CAPITAL RESOURCES

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

HKT's gross debt⁵ was HK\$39,338 million as at December 31, 2017 (December 31, 2016: HK\$38,798 million). Cash and short-term deposits totaled HK\$3,667 million as at December 31, 2017 (December 31, 2016: HK\$3,332 million). HKT's gross debt⁵ to total assets was 41% as at December 31, 2017 (December 31, 2016: 42%).

As at December 31, 2017, HKT had ample liquidity as evidenced by committed banking facilities totaling HK\$27,381 million, of which HK\$5,698 million remained undrawn.

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2017, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE⁶

Capital expenditure including capitalized interest for the year ended December 31, 2017 was HK\$2,655 million (2016: HK\$2,878 million). Capital expenditure relative to revenue was 8.0% for the year ended December 31, 2017 (2016: 8.5%). Capital expenditures for the Mobile segment declined following the completion of the CSL integration in 2016, while capital expenditure for the TSS segment grew to meet the continued demand for fiber broadband connectivity and Internet of Things ("IoT") related services, customized solutions for enterprises and continued submarine cable investments.

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

HEDGING

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

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

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

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

CHARGE ON ASSETS

As at December 31, 2017, no assets of the Group (2016: nil) were pledged to secure loans and banking facilities of HKT.

CONTINGENT LIABILITIES

As at December 31, HK\$ million	2016	2017
Performance guarantees	513	237
Others	57	64
	570	301

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

HUMAN RESOURCES

HKT had over 17,600 employees as at December 31, 2017 (2016: 18,900) located in 43 countries and cities. About 62% of these employees work in Hong Kong and the others are based mainly in mainland China, the United States and the Philippines. HKT has established performance based bonus and incentive schemes designed to motivate and reward employees at all levels to achieve business performance targets. Payment of performance bonuses is generally based on achievement of revenue, EBITDA and free cash flow targets for HKT as a whole and for each of the individual business units and performance ratings of employees.

FINAL DIVIDEND/DISTRIBUTION

The board of directors of the Trustee-Manager has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 36.75 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the trust deed dated November 7, 2011 constituting the HKT Trust (the "Trust Deed")), in respect of the year ended December 31, 2017 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 36.75 HK cents per ordinary share, in respect of the same period), subject to the approval of unitholders of the HKT Trust and of shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and of shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM"). An interim distribution/dividend of 28.12 HK cents per Share Stapled Unit/ordinary share of the Company for the six months ended June 30, 2017 was paid to holders of Share Stapled Units/shareholder of the Company in September 2017.

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

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COMBINED REPORT OF THE DIRECTORS

The board of directors of HKT Management Limited (the “Trustee-Manager”, in its capacity as the trustee-manager of the HKT Trust) (the “Trustee-Manager Board”) and the board of directors of HKT Limited (the “Company” or “HKT”) (the “Company Board”) present their combined report together with the audited consolidated financial statements of (i) the HKT Trust and the Company and its subsidiaries (collectively the “Group”) and (ii) the Company and its subsidiaries (collectively the “HKT Limited Group”) (the consolidated financial statements of the Group and the HKT Limited Group are presented together and referred to as the “HKT Trust and HKT Limited consolidated financial statements”) for the year ended December 31, 2017.

The Trustee-Manager Board also presents its audited financial statements for the year ended December 31, 2017, which are set out in the accompanying financial statements on pages 184 to 194.

PRINCIPAL ACTIVITIES

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

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

The principal activities of the Company’s principal subsidiaries, and the associates and principal joint venture of the Group are set out in notes 24, 20 and 21 respectively to the HKT Trust and HKT Limited consolidated financial statements.

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

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

BUSINESS REVIEW

A fair review of the business of the Group during the year and particulars of important events affecting the Group that have occurred since the end of the financial year 2017 as well as a discussion on the Group’s future business development are provided in the Statement from the Chairman, the Statement from the Group Managing Director and the Management’s Discussion and Analysis on page 3, pages 4 to 6 and pages 50 to 58 respectively. The above discussions form part of this report.

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

Principal Risks and Uncertainties

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

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

BUSINESS REVIEW (CONTINUED)

Principal Risks and Uncertainties (continued)

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

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

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

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

For details of the Group's financial management policies and strategies in managing these financial risks, please refer to the Management's Discussion and Analysis of this annual report and note 35 to the HKT Trust and HKT Limited consolidated financial statements.

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

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

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

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

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

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

BUSINESS REVIEW (CONTINUED)

Principal Risks and Uncertainties (continued)

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

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

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

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

Environmental Policies and Performance

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

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

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

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

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

BUSINESS REVIEW (CONTINUED)

Environmental Policies and Performance (continued)

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

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

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

Relationships with Stakeholders

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

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

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

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

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

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

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

As a customer-focused service provider, we consider customers as one of the most important stakeholders. With a commitment to transforming customers’ lifestyle through continuous innovation, HKT has extended service offerings beyond connectivity into areas such as Smart Living to help customers build a modern and convenient home. An “io.t by HKT” concept store was opened during the year to promote Internet of Things (IoT) technology in customers’ daily lives.

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

BUSINESS REVIEW (CONTINUED)

Relationships with Stakeholders (continued)

In recognition of its outstanding customer service, among other awards, the Group won more than 100 awards in different categories at the Contact Center World, Hong Kong Association for Customer Service Excellence, Hong Kong Call Centre Association, Hong Kong Retail Management Association, Hong Kong Tourism Board, and Mystery Shopper Service Association in 2017. HKT also received over 36,000 customer compliments in 2017. In addition, the Group has in place a customer loyalty and rewards program, The Club, offering a wide variety of privileges to customers.

HKT is committed to upholding the highest ethical and professional standards when dealing with suppliers and contractors. The Group maintains relationship with more than 2,000 suppliers globally. To integrate CSR principles throughout our supply chain, the Company has in place the Group Purchasing Policy and Principles, and a Supplier Code of Conduct to facilitate a common means whereby we can better communicate with our business partners regarding their compliance with local regulations governing labor, health and safety, and the environment. In order to have a better and close monitoring of supplier performance, our buying units conduct supplier review and assessment visits throughout the year, targeting our major suppliers and contractors, and will communicate with the suppliers with unsatisfactory rating for rectification or improvements. As an ISO 9001 certified company, our quality management system ensures that our products consistently meet regulatory requirements and customer expectations.

Together with PCCW, HKT supports the community through a diverse range of initiatives serving the elderly, students and youth, children, people with disabilities and other groups. Being the premier telecommunications provider in Hong Kong, the Group provides hardware and communications services for charities and various community groups in need. We also strive to connect elderly people with technologies that promote active and smart aging. In 2017, a virtual reality workshop was organized for the elderly. Through “Smart Pama” smartphone workshops, seniors are able to enjoy the convenience brought by technology. We care for the safety and communication needs of senior citizens with the continuous sponsorship for the Care for the Elderly Line and Personal Emergency Link service.

To equip students and youth with skills and resources to excel in the digital age, PCCW has been sponsoring the Youth IT Summer Camp and providing annual scholarships and bursaries to students of computer science, information technology, and other disciplines. HKT has also participated in The Women’s Foundation’s “Girls Go Tech” program by providing free computer coding and digital skill workshops for girls from underprivileged backgrounds.

PCCW Group’s corporate volunteer team, comprising employees, their family members and company retirees, last year ran 26 ongoing programs and 17 special programs for various charities and social services groups. In 2017, the volunteer team was once again given the Award of 10,000 Hours for Volunteer Service and the Merit of Highest Service Hour Award 2016 (Private Organizations – Category 1) by the Steering Committee on Promotion of Volunteer Service of the Social Welfare Department for contributing more than 10,000 hours of volunteer service to the community in 2016. The volunteer team also won the Silver Award in the volunteer team category of the Hong Kong Corporate Citizenship Programme organized by the Hong Kong Productivity Council and the Committee on the Promotion of Civic Education in 2017. In appreciation of the commitment of staff volunteers, HKT operates a Volunteer Appreciation Scheme whereby employees participating in community services may be entitled to volunteer leave days.

HKT is a Caring Company of Hong Kong Council of Social Service’s Caring Company Scheme.

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

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

BUSINESS REVIEW (CONTINUED)

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

Telecommunications Ordinance (“TO”)

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

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

Trade Descriptions Ordinance (“TDO”)

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

Competition Ordinance (“CO”)

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

Personal Data (Privacy) Ordinance (“PDPO”)

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

RESULTS, APPROPRIATIONS AND DISTRIBUTIONS

The results of the Group for the year ended December 31, 2017 are set out in the consolidated income statement of HKT Trust and of HKT Limited on page 89.

The results of the Trustee-Manager for the year ended December 31, 2017 are set out in the income statement of HKT Management Limited on page 186.

An interim distribution/dividend of 28.12 HK cents per share stapled unit of HKT Trust and the Company (the “Share Stapled Unit”)/ ordinary share of the Company for the six months ended June 30, 2017 was paid to holders of Share Stapled Units/shareholder of the Company in September 2017.

RESULTS, APPROPRIATIONS AND DISTRIBUTIONS (CONTINUED)

The Trustee-Manager Board has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 36.75 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the Trust Deed (as defined below)), in respect of the year ended December 31, 2017 (and in order to enable the HKT Trust to pay that distribution, the Company Board has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 36.75 HK cents per ordinary share, in respect of the same period), subject to the approval of unitholders of the HKT Trust and of shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and of shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM").

The Trustee-Manager Board does not recommend the payment of a final dividend for the year ended December 31, 2017 to CAS Holding No. 1 Limited, the sole member of the Trustee-Manager.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 183.

FIXED ASSETS

Details of movements in the Group's property, plant and equipment, and interests in leasehold land during the year are set out in notes 16 and 17 respectively to the HKT Trust and HKT Limited consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings are set out in note 26 to the HKT Trust and HKT Limited consolidated financial statements.

SHARE STAPLED UNITS/SHARES ISSUED

There were no new Share Stapled Units/shares of the Company issued during the year ended December 31, 2017. Details of the share capital of the Company for the year ended December 31, 2017 are set out in note 29 to the HKT Trust and HKT Limited consolidated financial statements.

There were no new shares of the Trustee-Manager issued during the year ended December 31, 2017. Details of the share capital of the Trustee-Manager for the year ended December 31, 2017 are set out in note 7 to the financial statements of the Trustee-Manager.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in notes 29 and 30 respectively to the HKT Trust and HKT Limited consolidated financial statements.

The statement of changes in equity of HKT Management Limited during the year is set out on page 189.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2017, less than 30% of the Group's revenue from sales of goods or rendering of services was attributable to the Group's five largest customers, and less than 30% of the Group's purchases were attributable to the Group's five largest suppliers.

DIRECTORS

The directors of the Company (the “Company Directors”) and the directors of the Trustee-Manager (the “Trustee-Manager Directors”) (the Company Directors and the Trustee-Manager Directors collectively referred to as the “Directors”) who held office during the year and up to the date of this report are:

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

Professor Chang Hsin Kang, F_{REng}, GBS, JP
Sunil Varma
Aman Mehta
Frances Waikwun Wong

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

In accordance with the Company’s amended and restated articles of association and the Trust Deed, Li Tzar Kai, Richard, Lu Yimin, Sunil Varma and Frances Waikwun Wong shall retire from office of both the Company and the Trustee-Manager at the forthcoming AGM and, being eligible, offer themselves for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

With respect to Aman Mehta, on February 15, 2013, Pacific Century Regional Developments Limited (“PCRD”, a substantial shareholder of PCCW) announced the execution of a term sheet between PCRD Services Pte Ltd (“PCRD Services”, a wholly-owned subsidiary of PCRD) and, amongst the others, KSH Distriparks Private Limited (“KSH”), Pasha Ventures Private Limited (“Pasha Ventures”), Aman Mehta (an independent non-executive Director) and Akash Mehta (the adult son of Aman Mehta) (together, the “Mehta Family”) and Sky Advance Associates Limited (“Sky Advance”, a company controlled by Akash Mehta) in relation to a proposed restructuring (the “Restructuring”) of their respective interests in Pasha Ventures and KSH by way of a scheme of amalgamation. As of March 11, 2012, PCRD Services, Aman Mehta and Akash Mehta held 74%, 21% and 5% of the paid up issued equity capital of Pasha Ventures respectively. KSH is an Indian private limited logistics company with an inland container depot located in Pune, India and owned at that time as to 25.94% and 5.19% respectively by PCRD Services and Sky Advance. As a result of the Restructuring, Pasha Ventures was amalgamated with KSH and Pasha Ventures ceased to be a subsidiary of PCRD and was dissolved in June 2013. Accordingly, the shareholdings of PCRD Services, Sky Advance and the Mehta Family in KSH are now approximately 49.87%, 2.61% and 12.94% respectively. Aman Mehta is a passive investor in KSH and does not hold any directorship in KSH. Save as disclosed above, Aman Mehta is not in any way connected to PCRD, PCRD Services, PCCW, the Company or the Trustee-Manager.

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

1. Interests in HKT Trust and HKT Limited

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

Name of Director/Chief Executive	Number of Share Stapled Units held			Number of underlying Share Stapled Units held under equity derivatives	Total	Approximate percentage of the total number of Share Stapled Units in issue
	Personal interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	66,247,614 (Note 1(a))	144,786,423 (Note 1(b))	–	211,034,037	2.79%
Alexander Anthony Arena	3,344,103	–	901,885 (Note 2)	–	4,245,988	0.06%
Hui Hon Hing, Susanna	2,603,398	–	686,792 (Note 3)	–	3,290,190	0.04%
Peter Anthony Allen (Note 4)	21,530	–	–	–	21,530	0.0003%
Srinivas Bangalore Gangaiah	58,175	–	249,664 (Note 5)	–	307,839	0.004%
Professor Chang Hsin Kang	2,790	–	–	–	2,790	0.00004%

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

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

Each Share Stapled Unit confers an interest in:

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

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

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

Notes:

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

(b) These interests represented:
 - (i) a deemed interest in 13,159,619 Share Stapled Units held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 13,159,619 Share Stapled Units held by PCGH; and
 - (ii) a deemed interest in 131,626,804 Share Stapled Units held by PCRD, a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 88.58% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 131,626,804 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.06% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard.
2. These interests represented awards made to Alexander Anthony Arena which were subject to certain vesting conditions pursuant to an award scheme of the Company, namely the HKT Share Stapled Units Purchase Scheme, the details of which are set out in the section below headed "**Share Stapled Units Award Schemes**".
3. These interests represented awards made to Hui Hon Hing, Susanna which were subject to certain vesting conditions pursuant to the relevant award schemes of the Company and PCCW, namely the HKT Share Stapled Units Purchase Scheme and the Purchase Scheme. Details of the HKT Share Stapled Units Purchase Scheme are set out in the section below headed "**Share Stapled Units Award Schemes**".
4. A private company owned by Li Tzar Kai, Richard has provided an interest-free loan facility not exceeding the amount of S\$25,000,000 (equivalent to approximately HK\$148,000,000) to Peter A. Allen at his request and for personal reasons. The loan is repayable upon written request by the said private company giving six months' prior notice. This private arrangement is not connected with and does not conflict with Peter A. Allen's duties at HKT Trust and HKT Limited.
5. These interests represented awards made to BG Srinivas which were subject to certain vesting conditions pursuant to an award scheme of PCCW, namely the Purchase Scheme.

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

2. Interests in the Associated Corporations of the Company

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

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

Name of Director/Chief Executive	Number of ordinary shares of PCCW held			Number of underlying shares of PCCW held under equity derivatives	Total	Approximate percentage of the total number of shares of PCCW in issue
	Personal interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	307,694,369 (Note 1(a))	1,928,842,224 (Note 1(b))	–	2,236,536,593	28.97%
Alexander Anthony Arena	1,636,115	–	1,988,165 (Note 3)	200 (Note 2)	3,624,480	0.05%
Hui Hon Hing, Susanna	4,412,414	–	1,513,482 (Note 3)	–	5,925,896	0.08%
Peter Anthony Allen	272,208	–	–	–	272,208	0.004%
Srinivas Bangalore Gangaiah	336,835	–	549,761 (Note 3)	–	886,596	0.01%
Professor Chang Hsin Kang	64,180	–	–	–	64,180	0.001%

Notes:

- Of these PCCW shares, PCD held 269,471,956 shares and Eisner held 38,222,413 shares.
 - These interests represented:
 - a deemed interest in 175,312,270 shares of PCCW held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 175,312,270 shares of PCCW held by PCGH; and
 - a deemed interest in 1,753,529,954 shares of PCCW held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,753,529,954 shares of PCCW held by PCRD.
- These interests represented Alexander Anthony Arena's beneficial interest in 200 underlying shares of PCCW held in the form of 20 American Depositary Receipts which constituted listed equity derivatives.
- These interests represented awards made to these Directors which were subject to certain vesting conditions pursuant to an award scheme of PCCW, namely the Purchase Scheme.

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

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

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

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

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

Notes:

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

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

SHARE STAPLED UNITS OPTION SCHEME

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

- The purpose of the 2011-2021 Option Scheme is to enable the HKT Trust and the Company, acting jointly by mutual agreement between them, to grant options to the eligible participants as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants.
- Eligible participants include (a) any full time or part time employee of the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of the Company and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries. The Trustee-Manager is not an eligible participant under the 2011-2021 Option Scheme.
- (i) Notwithstanding any other provisions of the 2011-2021 Option Scheme, no options may be granted under the 2011-2021 Option Scheme if the exercise of the options may result in PCCW ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).

SHARE STAPLED UNITS OPTION SCHEME (CONTINUED)

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

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

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

- (4) The total number of Share Stapled Units issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial holder of Share Stapled Units or an independent non-executive director of the Company, or any of their respective associates) under the 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the 2011-2021 Option Scheme) in any 12-month period shall not exceed 1% of the Share Stapled Units in issue at the relevant time. For options granted or to be granted to a substantial holder of Share Stapled Units or an independent non-executive director of the Company, or any of their respective associates, the said limit is reduced to 0.1% of the Share Stapled Units in issue and HK\$5 million in aggregate value based on the closing price of the Share Stapled Units on the date of each grant. Any further grant of Share Stapled Unit options in excess of such limits is subject to the approval of registered holders of Share Stapled Units at general meeting.
- (5) The 2011-2021 Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2011-2021 Option Scheme shall be determined by the Trustee-Manager Board and the Company Board, provided that such terms and conditions shall not be inconsistent with the 2011-2021 Option Scheme and no option may be exercised 10 years after the date of grant.
- (6) Upon acceptance of the offer, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price for grants requiring approval of holders of Share Stapled Units in accordance with the provisions of the 2011-2021 Option Scheme.
- (7) The subscription price for Share Stapled Units in respect of any particular option shall not be less than the highest of (i) the closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet for the 5 business days immediately preceding the date of grant; and (iii) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.
- (8) Subject to the early termination by an ordinary resolution in general meeting of registered holders of Share Stapled Units or resolutions of the Company Board and the Trustee-Manager Board, the 2011-2021 Option Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date, after which period no further options shall be granted but the provisions of the 2011-2021 Option Scheme shall remain in full force and effect in all other respects.

No Share Stapled Unit options have been granted under the 2011-2021 Option Scheme since its adoption and up to and including December 31, 2017.

SHARE STAPLED UNITS AWARD SCHEMES

On October 11, 2011, the Company adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme, in respect of which the most recent changes were approved by the Approving Body (as defined below) on February 6, 2018 (collectively the “Share Stapled Units Award Schemes”). The purposes of the Share Stapled Units Award Schemes are to incentivize and reward participants for their contribution to the growth of the HKT Limited Group and to provide the HKT Limited Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the participants.

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

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

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

- (i) as a result of such subscription, PCCW’s aggregate holding of Share Stapled Units would on a fully-diluted basis (which shall take into account the relevant subscription(s) proposed to be made under the HKT Share Stapled Units Subscription Scheme, the amount of all outstanding options in respect of Share Stapled Units as granted pursuant to the 2011-2021 Option Scheme, and all other rights or entitlements granted by the Company concerning the prospective allotment of new Share Stapled Units) represent less than 51% of the total number of Share Stapled Units as would exist were all such commitments to allot new Share Stapled Units to be duly fulfilled; or
- (ii) the Company does not have a relevant general mandate or specific mandate from holders of the Share Stapled Units necessary to effect the allotment and issue of Share Stapled Units pursuant to the scheme.

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

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

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

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

During the year ended December 31, 2017, an aggregate of 2,392,160 Share Stapled Units were awarded subject to certain vesting conditions pursuant to the HKT Share Stapled Units Purchase Scheme, including an award in respect of 605,023 and 262,177 Share Stapled Units made respectively to Alexander Anthony Arena and Hui Hon Hing, Susanna (the directors of the Company and the Trustee-Manager). Additionally, 119,259 Share Stapled Units have lapsed and/or been forfeited and 4,647,596 Share Stapled Units have vested during the year.

As at the date of this annual report, an aggregate of 3,389,562 Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested, which represents approximately 0.04% of the total number of Share Stapled Units in issue as at that date. No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2017.

Further details of the Share Stapled Units Award Schemes, including the fair values of the Share Stapled Units on the respective dates of award, are set out in note 28(b)(iii) to the HKT Trust and HKT Limited consolidated financial statements.

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

EQUITY-LINKED AGREEMENTS

Details of the 2011-2021 Option Scheme adopted by the HKT Trust and the Company are set out in the section above headed “Share Stapled Units Option Scheme” and note 28(b)(ii) to the HKT Trust and HKT Limited consolidated financial statements.

Details of the Share Stapled Units Award Schemes adopted by the Company are set out in the section above headed “Share Stapled Units Award Schemes” and note 28(b)(iii) to the HKT Trust and HKT Limited consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL HOLDERS OF SHARE STAPLED UNITS

As at December 31, 2017, the following persons (other than any Directors or Chief Executives) were substantial holders of Share Stapled Units, and of ordinary shares and preference shares in the Company, and had interests or short positions in the Share Stapled Units and underlying Share Stapled Units, and in the shares and underlying shares of the Company as recorded in the register(s) required to be kept under Section 336 of the SFO:

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

Each Share Stapled Unit confers an interest in:

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

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

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

Notes:

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

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

Save as disclosed above in this section, the Trustee-Manager and the Company have not been notified of any other persons (other than any Directors or Chief Executives) who had an interest or a short position in the Share Stapled Units or underlying Share Stapled Units, or in the shares, underlying shares or debentures of the Company as recorded in the register(s) required to be kept under Section 336 of the SFO as at December 31, 2017.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Details of the continuing connected transactions and significant related party transactions are disclosed in this report and in note 6 to the HKT Trust and HKT Limited consolidated financial statements, as well as in note 4 to the Trustee-Manager's financial statements.

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

MANAGEMENT CONTRACTS

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

Li Tzar Kai, Richard

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

Lu Yimin and Li Fushen

Lu Yimin is an executive director and President of China Unicom (Hong Kong) Limited. He is President and Vice Chairman of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a director and President of China United Network Communications Limited and a director and President of China United Network Communications Corporation Limited.

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

China Unicom (Hong Kong) Limited is a company listed on the New York Stock Exchange and the main board of the Stock Exchange. 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#) is the ultimate parent company of China Unicom (Hong Kong) Limited and China United Network Communications Limited is a shareholder of China Unicom (Hong Kong) Limited. China United Network Communications Corporation Limited is a subsidiary of China Unicom (Hong Kong) Limited. China United Network Communications Limited is a company listed on the Shanghai Stock Exchange. Save for Lu Yimin and Li Fushen, each of these companies has its own management team separate from the HKT Limited Group. These companies are engaged in telecommunications business and other related businesses and compete with certain aspects of the businesses of the HKT Limited Group.

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

PERMITTED INDEMNITY

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

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

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

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

For identification only

DONATIONS

During the year, the Group made donations of approximately HK\$257,000 for charitable and other purposes (2016: HK\$1,630,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

During the year ended December 31, 2017, none of the HKT Trust (including the Trustee-Manager), the Company or the Company's subsidiaries purchased, sold or redeemed any Share Stapled Units.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the announcement dated December 23, 2016 (the "2016 Announcement") jointly issued by the Trustee-Manager and the Company, members of the HKT Limited Group entered into various agreements with certain members of PCCW and its subsidiaries (excluding the HKT Limited Group) (collectively, the "PCCW Group") to, amongst other things, renew the existing continuing connected transaction agreements and set new annual caps for the three financial years ending December 31, 2019 for operational needs. On December 14, 2017, a further announcement was issued to revise some of the annual caps of the continuing connected transactions as disclosed in the 2016 Announcement to cater for the anticipated increase in demand for certain services by entering into the relevant amendment agreement, and to set new annual caps for the continuing connected transactions mentioned in paragraph (4) below for the three financial years ending December 31, 2019.

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

Set out below are the continuing connected transactions between the HKT Limited Group and the PCCW Group during the year ended December 31, 2017 under the relevant agreements with a term of not exceeding three years. The Trustee-Manager and the Company have complied with the applicable requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions during the year.

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

(1) Provision of carriage services

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

(2) Provision of marketing and sales services

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

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

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

(3) Provision of internal (specialist telecom) services

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

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

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

(5) Licensed access to floor space

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

Services supplied by the Media Group to the HKT Limited Group

(6) Provision of service and product

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

- a mutual commitment to package the HKT Limited Group’s products and services and the Media Group’s products and services from time to time, from which results a dynamic and ongoing series of promotional packages (e.g. certain channels tied to a particular broadband purchasing commitment); and
- a commitment by the Media Group to provide the HKT Limited Group and/or its customers with certain services and products, the composition of which is agreed between the parties from time to time.

(7) Provision of marketing and sales services

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

(8) Content provision arrangements

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

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

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

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

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

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

(10) Licensed access to floor space

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

Services supplied by the Solutions Group to the HKT Limited Group

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

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

(12) Sub-contracting agreement

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

Other transactions between the HKT Limited Group and the PCCW Group

(13) Provision of corporate shared services

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

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)**Other transactions between the HKT Limited Group and the PCCW Group (continued)****(14) Provision of marketing and promotion services**

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

(15) Licensing agreement (PCCW Tower)

PCCW Services is the tenant in respect of certain spaces located at PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, which it leases from an independent third party pursuant to a lease dated October 31, 2008. The lease expired on December 31, 2017. Under and subject to the terms of the lease, PCCW Services is afforded the right to share the premises with its related companies, which include members of the HKT Limited Group. PCCW Services and HKT Services entered into an agreement dated December 23, 2016 pursuant to which HKT Services has been granted a licence to occupy certain floor spaces for office use.

The approximate aggregate values together with the existing and (where applicable) the revised/new annual caps for each of the categories of continuing connected transactions as described in paragraphs (1) to (15) above for the financial year ended December 31, 2017 are set out below:

Agreement/Service description	Approximate aggregate values for the financial year ended December 31, 2017 HK\$'000	Existing/Revised/New annual caps for the financial year ended December 31, 2017 HK\$'000
Products and services and floor space supplied by the HKT Limited Group to the Media Group		
(1) Provision of carriage services	154,203	360,200
(2) Provision of marketing and sales services	219,212	305,500
(3) Provision of internal (specialist telecom) services	25,296	25,800
(4) Provision of customer premises equipment (CPE) solutions and networking services	39,106	80,000
(5) Licensed access to floor space	3,300	3,300
Services supplied by the Media Group to the HKT Limited Group		
(6) Provision of service and product	698,879	1,091,500
(7) Provision of marketing and sales services	34,656	104,600
(8) Content provision arrangements	457,601	465,300
Services and floor space supplied by the HKT Limited Group to the Solutions Group		
(9) Provision of managed services and other telecommunications related services	875,913	960,000
(10) Licensed access to floor space	7,560	9,000

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Agreement/Service description	Approximate aggregate values for the financial year ended December 31, 2017 HK\$'000	Existing/Revised/New annual caps for the financial year ended December 31, 2017 HK\$'000
Services supplied by the Solutions Group to the HKT Limited Group		
(11) Provision of information technology, logistic and other contractor services	1,210,200	1,425,600
(12) (a) Contracted service cost from PCCW Macau to PCCS	50,300	150,000
(b) Sub-contracting fees from PCCS to PCCW Macau	1,200	7,500
Other transactions between the HKT Limited Group and the PCCW Group		
(13) Provision of corporate shared services	137,679	243,500
(14) Provision of marketing and promotion services	24,867	112,500
(15) Licensing agreement (PCCW Tower)	141,342	150,000

Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the continuing connected transactions described in paragraphs (1) to (15) above entered into between the HKT Limited Group and the PCCW Group for the year ended December 31, 2017 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the external auditor's letter has been provided by the Trustee-Manager and the Company jointly to the Stock Exchange.

The Trustee-Manager Board and the Company Board, including the independent non-executive Directors, have reviewed and confirmed that the continuing connected transactions described in paragraphs (1) to (15) above were entered into:

- (i) in the ordinary and usual course of business of the HKT Limited Group;
- (ii) on normal commercial terms or better; and
- (iii) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the holders of the Share Stapled Units as a whole.

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

RELATED PARTY TRANSACTIONS

The significant related party transactions which were undertaken in the normal course of business are set out in note 6 to the HKT Trust and HKT Limited consolidated financial statements and in note 4 to the Trustee-Manager's financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "**Continuing Connected Transactions**") under the Listing Rules, these transactions are exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

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

AUDITOR

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

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

Bernadette M. Lomas

Group General Counsel and Company Secretary
Hong Kong, February 6, 2018

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

TO THE HOLDERS OF SHARE STAPLED UNITS OF HKT TRUST AND HKT LIMITED

(HKT Trust is a trust constituted under the laws of Hong Kong; HKT Limited is incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of HKT Trust, HKT Limited (“the Company”) and its subsidiaries (together “the Group”) and of HKT Limited and its subsidiaries (the “HKT Limited Group”) set out on pages 89 to 182 (together referred to as the “HKT Trust and HKT Limited consolidated financial statements”). As explained in note 1 to the HKT Trust and HKT Limited consolidated financial statements, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together. The HKT Trust and HKT Limited consolidated financial statements together comprise:

- the consolidated statement of financial position of the Group and of the HKT Limited Group as at December 31, 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of principal accounting policies.

Our opinion

In our opinion, the HKT Trust and HKT Limited consolidated financial statements give a true and fair view of the consolidated financial position of the Group and of the HKT Limited Group as at December 31, 2017, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

- Revenue recognition
- Income taxes
- Impairment test for cash generating units (“CGU”) containing goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition</p> <p>Refer to note 7 to the HKT Trust and HKT Limited consolidated financial statements.</p> <p>The Group and the HKT Limited Group recognized revenue of HK\$33,258 million for the year ended December 31, 2017, including external revenue from Telecommunications Services (“TSS”) and Mobile of HK\$21,841 million and HK\$12,018 million, respectively.</p> <p>When customers purchase telecommunications equipment together with a fixed period of telecommunications service, the Groups use the residual value method to determine the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.</p> <p>Significant effort was spent auditing the revenue recognized by TSS and Mobile due to the large volume of transactions and complexity of the systems used and the use of management’s estimates to determine the fair values of undelivered elements to allocate revenue from multiple-element arrangements.</p>	<p>Our procedures in relation to revenue recognition included:</p> <ul style="list-style-type: none"> • Testing the IT environment in respect of TSS and Mobile revenues; • Testing, on a sample basis, the accuracy of TSS and Mobile revenue transactions from the general ledger to the underlying invoices, contractual documentation and evidence of cash receipts; • Assessing management’s estimates used to determine the fair value of the undelivered element to allocate TSS and Mobile revenue from multiple-element arrangements with reference to observable market data; and • Testing the calculation and allocation of the TSS and Mobile revenue to the separable elements of multiple-element arrangements. <p>We found the revenue recorded to be supported by the available evidence.</p>

Key Audit Matter**How our audit addressed the Key Audit Matter****Income taxes**

Refer to notes 13 and 31 to the HKT Trust and HKT Limited consolidated financial statements.

The Group and the HKT Limited Group operate across several jurisdictions and are subject to Hong Kong and overseas tax. From time to time, there are queries raised by relevant tax authorities in respect of the tax treatment of certain matters. Significant judgement was used to estimate the outcome of these matters and the appropriate amount of current income tax liabilities.

The Group and the HKT Limited Group have recognized deferred income tax assets of HK\$497 million related to available tax losses as at December 31, 2017. In assessing the amount of deferred income tax assets to be recognized, the Group and the HKT Limited Group have considered the future taxable income and tax planning strategies.

Our procedures in relation to significant judgements on current income tax liabilities and deferred income tax assets included:

- Discussing with management the basis of the current income tax liabilities and the estimated outcome of the queries raised by relevant tax authorities;
- Assessing the appropriateness of the current income tax provision at the year end, according to the tax rules in different jurisdictions;
- Validating available tax losses to relevant financial statements and tax assessments; and
- Assessing the reasonableness of the deferred tax assets and the projected future taxable profits, based on our knowledge of the business and industry.

We found the current income tax provisions and deferred income tax assets recognized to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment test for CGUs containing goodwill</p> <p>Refer to note 18 to the HKT Trust and HKT Limited consolidated financial statements.</p> <p>As at December 31, 2017, the Group and the HKT Limited Group have goodwill of HK\$49,814 million, property, plant and equipment of HK\$19,386 million and intangible assets of HK\$10,895 million.</p> <p>For the purpose of assessing impairment, these assets were allocated to cash generating units (“CGUs”), and the recoverable amount of each CGU was determined by management based on value-in-use calculation using cash flow projections. In carrying out the impairment assessments, significant management judgement was used to appropriately identify of CGUs and to determine the key assumptions, including revenue growth rates, EBITDA growth rates, terminal growth rates and discount rates, used in the value-in-use calculation. Management has concluded that there is no impairment in respect of the property, plant and equipment, goodwill and intangible assets.</p>	<p>Our procedures in relation to management’s impairment tests for the CGUs containing goodwill included:</p> <ul style="list-style-type: none"> Assessing management’s identification of CGUs based on the Group’s and the HKT Limited Group’s accounting policies and our understanding of the Group’s and the HKT Limited Group’s business; Assessing the value-in-use calculation methodology adopted by management; Comparing the data in the cash flow projections to the historic performance and considering the reasonableness of the cash flow projections based on the key assumptions; Assessing the reasonableness of the key assumptions, including revenue growth rates, EBITDA growth rates, terminal growth rates and discount rates, based on our knowledge of the business and industry; and Performing sensitivity analysis on the key assumptions to which the valuation models are the most sensitive. <p>We found management’s conclusion that there was no impairment in respect of the property, plant and equipment, goodwill and intangible assets to be supported by available evidence.</p>

Other Information

The directors of HKT Management Limited (the “Trustee-Manager”) (in its capacity as the trustee-manager of HKT Trust) and the directors of the Company are responsible for the other information. The other information comprises all the information included in the HKT Trust and HKT Limited 2017 annual report other than the consolidated financial statements of HKT Trust and HKT Limited, the financial statements of HKT Management Limited and our auditor’s reports thereon (“Other Information”).

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the HKT Trust and HKT Limited consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the HKT Limited Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the HKT Limited Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the HKT Trust and HKT Limited consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the HKT Limited Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- Evaluate the overall presentation, structure and content of the HKT Trust and HKT Limited consolidated financial statements, including the disclosures, and whether the HKT Trust and HKT Limited consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the HKT Limited Group to express an opinion on the HKT Trust and HKT Limited consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, February 6, 2018

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

CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2017

In HK\$ million	Note(s)	2016	2017
Revenue	7 & 8	33,847	33,258
Cost of sales		(14,445)	(14,161)
General and administrative expenses		(12,523)	(11,786)
Other losses, net	9	(51)	(145)
Finance costs, net	11	(1,107)	(1,076)
Share of results of joint ventures		(10)	2
Share of results of associates		(13)	(12)
Profit before income tax	10	5,698	6,080
Income tax	13(a)	(771)	(971)
Profit for the year		4,927	5,109
Attributable to:			
Holders of Share Stapled Units/shares of the Company		4,889	5,097
Non-controlling interests		38	12
Profit for the year		4,927	5,109
Earnings per Share Stapled Unit/share of the Company			
Basic	15	64.62 cents	67.34 cents
Diluted	15	64.58 cents	67.31 cents

The notes on pages 96 to 182 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

For the year ended December 31, 2017

In HK\$ million	Note	2016	2017
Profit for the year		4,927	5,109
Other comprehensive income/(loss)			
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:			
Exchange differences on translating foreign operations		(92)	180
Available-for-sale financial assets:			
– changes in fair value	22	(2)	–
– transfer to consolidated income statement on impairment		49	–
Cash flow hedges:			
– effective portion of changes in fair value		711	(280)
– transfer from equity to consolidated income statement		48	(332)
Other comprehensive income/(loss) for the year		714	(432)
Total comprehensive income for the year		5,641	4,677
Attributable to:			
– Holders of Share Stapled Units/shares of the Company		5,603	4,665
– Non-controlling interests		38	12
Total comprehensive income for the year		5,641	4,677

The notes on pages 96 to 182 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

For the year ended December 31, 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF HKT TRUST AND OF HKT LIMITED (CONTINUED)

For the year ended December 31, 2017

In HK\$ million	Note	2017		
		Attributable to holders of Share Stapled Units/shares of the Company	Non-controlling interests	Total equity
At January 1, 2017		39,096	63	39,159
Comprehensive income/(loss)				
Profit for the year		5,097	12	5,109
Other comprehensive income/(loss)				
Items that have been reclassified or may be reclassified subsequently to consolidated income statement:				
Exchange differences on translating foreign operations		180	–	180
Cash flow hedges:				
– effective portion of changes in fair value		(280)	–	(280)
– transfer from equity to consolidated income statement		(332)	–	(332)
Total other comprehensive loss		(432)	–	(432)
Total comprehensive income for the year		4,665	12	4,677
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes		(6)	–	(6)
Employee share-based compensation		25	–	25
Distribution/dividend paid in respect of the previous year	14	(2,632)	–	(2,632)
Interim distribution/dividend declared and paid in respect of the current year	14	(2,129)	–	(2,129)
Dividend declared and paid to the non-controlling shareholders of subsidiaries		–	(35)	(35)
Total transactions with equity holders		(4,742)	(35)	(4,777)
At December 31, 2017		39,019	40	39,059

The notes on pages 96 to 182 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

As at December 31, 2017

In HK\$ million	Note	2016	2017
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	18,019	19,386
Interests in leasehold land	17	253	240
Goodwill	18	49,787	49,814
Intangible assets	19	10,695	10,895
Interests in joint ventures	21	725	720
Interests in associates	20	130	–
Available-for-sale financial assets	22	77	77
Derivative financial instruments	27	277	223
Financial assets at fair value through profit or loss	23	31	20
Deferred income tax assets	31	317	466
Other non-current assets		610	692
		80,921	82,533
Current assets			
Prepayments, deposits and other current assets		5,226	5,484
Inventories	25(a)	707	749
Trade receivables, net	25(b)	3,035	2,787
Amounts due from related companies	6(c)	96	77
Financial assets at fair value through profit or loss	23	13	17
Restricted cash	25(c)	36	51
Short-term deposits		450	450
Cash and cash equivalents	33(c)	2,882	3,217
		12,445	12,832
Current liabilities			
Trade payables	25(d)	2,474	1,874
Accruals and other payables		5,019	5,183
Carrier licence fee liabilities	32	173	173
Amount due to a related company	6(c)	37	–
Amounts due to fellow subsidiaries	6(c)	465	969
Advances from customers		2,126	2,326
Current income tax liabilities		1,008	1,138
		11,302	11,663

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF HKT TRUST AND OF HKT LIMITED (CONTINUED)

As at December 31, 2017

In HK\$ million	Note	2016	2017
Non-current liabilities			
Long-term borrowings	26	38,193	39,146
Derivative financial instruments	27	14	150
Deferred income tax liabilities	31	2,713	2,989
Deferred income		1,021	1,307
Carrier licence fee liabilities	32	544	455
Other long-term liabilities		420	596
		42,905	44,643
Net assets		39,159	39,059
CAPITAL AND RESERVES			
Share capital	29	8	8
Reserves	30	39,088	39,011
Equity attributable to holders of Share Stapled Units/shares of the Company		39,096	39,019
Non-controlling interests	24(b)	63	40
Total equity		39,159	39,059

Approved and authorized for issue by the boards of directors of HKT Management Limited and HKT Limited (collectively, the "Boards") on February 6, 2018 and signed on behalf of the Boards by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 96 to 182 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

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

For the year ended December 31, 2017

In HK\$ million	Note	2016	2017
NET CASH GENERATED FROM OPERATING ACTIVITIES	33(a)	12,262	12,142
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		8	4
Proceeds from disposal of available-for-sale financial asset		–	6
Purchases of property, plant and equipment		(2,835)	(2,602)
Purchases of intangible assets		(4,254)	(4,755)
Investments in joint ventures		(160)	–
Investment in an associate		(69)	–
Investment in an available-for-sale financial asset		(77)	–
Loans to associates		(35)	(19)
Repayment of loan from an associate		17	–
Loans to joint ventures		(110)	(130)
Repayment from a joint venture		31	39
Increase in short-term deposits with maturity more than three months		(450)	–
NET CASH USED IN INVESTING ACTIVITIES		(7,934)	(7,457)
FINANCING ACTIVITIES			
New borrowings raised, net		16,828	5,275
Finance costs paid		(797)	(856)
Repayments of borrowings		(17,036)	(4,650)
Movement in amounts due to fellow subsidiaries		82	665
Settlement of balance to non-controlling shareholders of a subsidiary		(53)	–
Distributions/dividends paid to holders of Share Stapled Units/shareholders of the Company		(4,190)	(4,759)
Dividend paid to non-controlling shareholders of subsidiaries		(41)	(35)
NET CASH USED IN FINANCING ACTIVITIES		(5,207)	(4,360)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(879)	325
Exchange differences		(7)	10
CASH AND CASH EQUIVALENTS			
Beginning of year		3,768	2,882
End of year	33(c)	2,882	3,217

The notes on pages 96 to 182 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

NOTES TO THE HKT TRUST AND HKT LIMITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

1 BASIS OF PRESENTATION

In accordance with the Trust Deed (as defined below), HKT Trust (the “HKT Trust”) and HKT Limited are each required to prepare their own sets of financial statements on a consolidated basis. The HKT Trust consolidated financial statements for the year ended December 31, 2017 comprise the consolidated financial statements of the HKT Trust, HKT Limited (or the “Company”) and its subsidiaries (together the “Group”), and the Group’s interests in associates and joint ventures. The HKT Limited consolidated financial statements for the year ended December 31, 2017 comprise the consolidated financial statements of HKT Limited and its subsidiaries (together the “HKT Limited Group”) and the HKT Limited Group’s interests in associates and joint ventures, and the Company’s statement of financial position.

The HKT Trust controls HKT Limited and the sole activity of the HKT Trust during the year ended December 31, 2017 was investing in HKT Limited. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of capital of HKT Limited. The directors of the Trustee-Manager (as defined below) and the directors of the Company believe therefore that it is clearer to present the consolidated financial statements of the HKT Trust and the HKT Limited together. The consolidated financial statements of the HKT Trust and the consolidated financial statements of HKT Limited are presented together to the extent they are identical and are hereinafter referred to as the “HKT Trust and HKT Limited consolidated financial statements”.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity, consolidated statements of cash flows, principal accounting policies and the related explanatory information are common to the HKT Trust and the Company. The HKT Limited consolidated financial statements also include the stand-alone statements of financial position of HKT Limited as shown in note 5, and the relevant explanatory information in notes 24 and 29 where information specific to the Company are disclosed separately.

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

2 GENERAL INFORMATION

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

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

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

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation of the financial statements

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

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

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see note 33(b).

The Groups have not adopted any new and amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period, details of which are set out in note 39.

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

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

- financial assets at fair value through profit or loss (see note 3(k)(i));
- available-for-sale financial assets (see note 3(k)(ii)); and
- derivative financial instruments (see note 3(m)).

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

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

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

c. Subsidiaries and non-controlling interests

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

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

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

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Groups recognize any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless other measurement basis is required by Hong Kong Financial Reporting Standards. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 3(i)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results.

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

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

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

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

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

In the Company's statements of financial position, interests in subsidiaries are stated at cost less impairment losses (see note 3(l)(ii)). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

d. Associates

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

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

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

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

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

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

e. Joint arrangements

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

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

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

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**e. Joint arrangements (continued)**

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

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

f. Gaining or losing control

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

g. Property, plant and equipment

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

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

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

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

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

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

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

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

h. Leased assets

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

i. Classification of assets leased to the Groups

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

ii. Assets leased out under operating leases

Where the Groups lease out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Groups' depreciation policies, as set out in note 3(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(l)(ii). Revenue arising from operating leases is recognized in accordance with the Groups' revenue recognition policies, as set out in note 3(u)(iii).

iii. Operating lease charges

Where the Groups have the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognized in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is stated in the consolidated statement of financial position as "Interests in leasehold land" and is amortized to the consolidated income statement on a straight-line basis over the period of the lease term.

i. Goodwill

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

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

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

j. Intangible assets (other than goodwill)

i. Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalized if it is probable that future economic benefits will flow from the customers to the Groups and such costs can be measured reliably. Capitalized customer acquisition costs are amortized on a straight-line basis over the minimum enforceable contractual periods. At the end of the minimum enforceable contractual period, fully amortized customer acquisition costs will be written off.

In the event that a customer terminates the contract prior to the end of the minimum enforceable contractual period, the unamortized customer acquisition cost will be written off immediately in the consolidated income statement.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**j. Intangible assets (other than goodwill) (continued)****ii. Carrier licences**

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

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

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

iii. Software

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

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

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

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

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

iv. Other intangible assets

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

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

Trademarks	20 years
Customer base	1 to 10 years

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

k. Investments in equity securities

The Groups classify their investments in equity securities, other than interests in subsidiaries and interests in associates and joint ventures, as (i) financial assets at fair value through profit or loss, or (ii) available-for-sale financial assets.

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

i. Financial assets at fair value through profit or loss

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

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

At the end of each reporting period, the fair value is remeasured based on their current bid prices in an active market, with any unrealized holding gains or losses arising from the changes in fair value being recognized in the consolidated income statement in the period in which they arise. The net gain or loss recognized in the consolidated income statement does not include any interest earned or dividends on the financial assets as these are recognized in accordance with the policies set out in notes 3(u)(v) and 3(u)(vii) respectively.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets at fair value through profit and loss, held-to-maturity investments and loans and receivables. They are included in non-current assets unless the Groups intend to dispose of the investment within 12 months from the end of the reporting period.

At the end of each reporting period, the fair value of available-for-sale financial assets is remeasured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 3(l)(i)) and, in the case of monetary items, foreign exchange gains and losses which are recognized directly in the consolidated income statement. Dividend income from these investments is recognized in the consolidated income statement in accordance with the policy set out in note 3(u)(vii). When the investments are derecognized or impaired (see note 3(l)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the consolidated income statement.

Investments in equity securities are recognized or derecognized on the date the Groups commit to purchase or sell the investments or they expire.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**I. Impairment of assets****i. Impairment of investments in equity securities and other receivables**

Investments in equity securities (other than interests in subsidiaries and interests in associates and joint ventures: see note 3(l)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Groups about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets; or
- in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost.

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

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

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

- For available-for-sale financial assets, when there is an impairment, the cumulative loss, if any, that had been recognized in other comprehensive income is reclassified from equity in the consolidated income statement as a reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in the consolidated income statement.

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

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

i. Impairment of assets (continued)

ii. Impairment of other assets

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

- property, plant and equipment;
- interests in leasehold land;
- intangible assets;
- interests in associates and joint ventures; and
- goodwill.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

iii. Interim financial reporting and impairment

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

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

m. Derivative financial instruments

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

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

n. Hedging

i. Fair value hedges

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

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

ii. Cash flow hedges

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

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

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

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

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

o. Inventories

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

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

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

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

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

p. Trade and other receivables

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

q. Cash and cash equivalents

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

r. Trade and other payables

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

s. Borrowings

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

t. Provisions and contingent liabilities

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

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

u. Revenue recognition

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

i. Telecommunications and other services

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

Telecommunications service revenue based on usage of the Groups' network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the respective period.

Up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the estimated customer relationship period.

Other service income is recognized when services are rendered to customers.

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

ii. Sales of goods

Revenue from the sales of goods is recognized when goods are delivered to customers which generally coincides with the time when the customer has accepted the goods and the related risks and rewards of ownership have been transferred to the customer. Revenue is recorded after deduction of any trade discounts.

iii. Rental income from operating leases

Rental income receivable under operating leases is recognized in the consolidated income statement in equal installments over the accounting periods covered by the lease term. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

u. Revenue recognition *(continued)*

iv. Contract revenue

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

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable.

v. Interest income

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

vi. Commission income

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

vii. Dividend income

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

v. Borrowing costs

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

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

w. Income tax

- i. Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Current income tax and movements in deferred income tax assets and liabilities are recognized in the consolidated income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts are recognized in other comprehensive income or directly in equity, respectively.
- ii. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to income tax payable in respect of previous year.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**w. Income tax (continued)**

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

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

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

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

- iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the Groups have the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:
- in the case of current income tax assets and liabilities, the Groups intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
 - in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

x. Employee benefits

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

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

iii. Share-based payments

PCCW and the Groups operate share option schemes where employees of the Groups (and including directors) are granted options to acquire shares of PCCW and Share Stapled Units at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognized as staff costs in the consolidated income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognized in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expire (when it is released directly to retained profit).

The boards of directors of the Trustee-Manager and the Company may also grant Share Stapled Units to employees at nil consideration under the Company's Share Stapled Units award schemes, under which the awarded shares are either newly issued at issue price (the "HKT Share Stapled Units Subscription Scheme") or are purchased from the open market (the "HKT Share Stapled Units Purchase Scheme"). The cost of Share Stapled Units purchased from the open market is recognized in equity as treasury stock. The fair value of the employee services received in exchange for the grant of Share Stapled Units under both schemes is recognized as staff costs in the consolidated income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the awarded Share Stapled Units is measured by the quoted market price of the shares at grant date and is charged to the consolidated income statement over the respective vesting period. During the vesting period, the number of awarded Share Stapled Units that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited to the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded Share Stapled Units that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded Share Stapled Units recognized in equity as treasury stock is transferred to the employee share-based compensation reserve.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**x. Employee benefits (continued)****iii. Share-based payments (continued)**

The board of directors of PCCW (the “PCCW Board”) may also grant shares of PCCW and Share Stapled Units to employees of PCCW and its participating subsidiaries of PCCW at nil consideration under its share award schemes, under which the awarded PCCW shares are either newly issued at par value (the “PCCW Subscription Scheme”) or are purchased from the open market (the “PCCW Purchase Scheme”).

Awards under the PCCW Purchase Scheme and the PCCW Subscription Scheme, are accounted for as cash-settle share-based payments. The fair value of the awarded PCCW shares represents the quoted market price of PCCW shares purchased from the open market under the PCCW Purchase Scheme and the issue price of PCCW shares under the PCCW Subscription Scheme are recognized as financial assets at fair value through profit and loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW shares are recognized as staff costs in the income statement over the respective vesting period with a corresponding obligation being recognized. During the vesting period, the number of awarded PCCW shares that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the obligation. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded PCCW shares that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW shares recognized in the financial assets at fair value through profit and loss is offset with the obligation.

iv. Termination benefits

Termination benefits are recognized only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the numbers of employees affected, or, after individual employees have been advised of the specific terms.

y. Translation of foreign currencies

Items included in the financial statements of each of the Groups’ entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The HKT Trust and HKT Limited consolidated financial statements are presented in Hong Kong dollars (HK\$), which is the functional currency of HKT Trust and HKT Limited and presentation currency of the Groups.

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

y. Translation of foreign currencies (continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. Exchange differences arising on translation of non-monetary assets and liabilities are reported as part of the fair value gain or loss in the consolidated income statement. Exchange differences arising on translation of non-monetary assets and liabilities, such as available-for-sale financial assets, are included in the fair value gain or loss in the available-for-sale financial assets reserve under equity.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Items of foreign operations in the statement of financial position, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, if any, are taken to other comprehensive income and accumulated separately in the currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in the currency translation reserve under equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

z. Related parties

For the purposes of the HKT Trust and HKT Limited consolidated financial statements, a party is considered to be related to the Groups if:

- i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Groups or exercise significant influence over the Groups in making financial and operating policy decisions, or has joint control over the Groups;
- ii. the Groups and the party are subject to common control;
- iii. the party is an associate of the Groups or a joint venture in which the Groups is a venturer;
- iv. the party is a member of key management personnel of the Groups or the Groups' parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;
- v. the party is a close family member of a party referred to in (i) above or is an entity under the control, joint control or significant influence of such party;
- vi. the party is a post-employment benefit plan which is for the benefit of employees of the Groups or of any entity that is a related party of the Groups; or
- vii. the entity, or any member of the Groups of which it is a part, provides key management personnel services to the Groups.

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

aa. Segment reporting

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

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses and segment performance include transactions between segments. Inter-segment pricing is based on similar terms to those available to other external parties for similar services. Inter-segment transactions are eliminated in full in preparing the HKT Trust and HKT Limited consolidated financial statements.

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

bb. Distribution/dividend to the holders of Share Stapled Units/shares of the Company

Distribution/dividend to the holders of Share Stapled Units/shares of the Company are recognized as a liability in the HKT Trust and HKT Limited consolidated financial statements and the Company's financial statement in the period in which the distributions/dividends are approved by the Boards or holders of Share Stapled Units/shares of the Company, where appropriate.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Groups make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 18 and 35 contain information about the assumptions and the risk factors relating to goodwill impairment and financial instruments. Management has also made judgements in applying the Groups' accounting policies. Other key sources of estimation uncertainty are discussed below:

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

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

- property, plant and equipment;
- interests in leasehold land;
- intangible assets;
- interests in associates and joint ventures; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. Impairment tests are performed for CGUs containing goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives annually whether or not there is any indication of impairment. Significant judgement is used to identify CGUs appropriately. An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The sources utilized to identify indications of impairment are often subjective in nature and the Groups are required to use judgement in applying such information to its business. The Groups' interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period. Such information is particularly significant as it relates to the Groups' telecommunications services and infrastructure businesses in Hong Kong.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

ii. Revenue recognition

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

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

iii. Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, the Groups consider future taxable income and ongoing prudent and appropriate tax planning strategies. In the event that the Groups' estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Groups' ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

iv. Current income tax

The Groups make a provision for current income tax based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Groups. Nevertheless, from time to time, there are queries raised by the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Groups consider it probable that these queries or judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

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

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

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Groups' strategies. The Groups perform annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Groups extend or shorten the useful lives according to the results of the review.

December 31, 2017

5 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

In HK\$ million	Note	2016	2017
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	24(a)	28,098	28,111
		28,098	28,111
Current assets			
Prepayments, deposits and other current assets		8	4
Amounts due from subsidiaries		7,325	7,321
		7,333	7,325
Current liabilities			
Accruals and other payables		31	33
Amounts due to subsidiaries		157	115
		188	148
Net assets		35,243	35,288
CAPITAL AND RESERVES			
Share capital	29	8	8
Reserves	29	35,235	35,280
Total equity		35,243	35,288

Approved and authorized for issue by the Boards on February 6, 2018 and signed on behalf of the Boards by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

6 RELATED PARTY TRANSACTIONS

PCCW is the controlling holder of Share Stapled Units. CAS Holding No. 1 Limited and PCCW are the immediate and ultimate holding companies of the Company respectively.

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

In HK\$ million	Note	2016	2017
Telecommunications service fees received or receivable from a substantial shareholder of PCCW	a	80	74
Telecommunications service fees paid or payable to a substantial shareholder of PCCW	a	99	88
Telecommunications service fees and interest income received or receivable from joint ventures	a	34	39
Telecommunications service fees, equipment purchase, outsourcing fees and rental charges paid or payable to joint ventures	a	277	269
Consultancy service charges and interest income received or receivable from an associate	a	15	16
Telecommunications service fees paid or payable to an associate	a	–	12
Telecommunications service fees, management fee, equipment sales and other recharge costs received or receivable from fellow subsidiaries	a	989	1,582
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy fee, management fee and other recharged costs paid or payable to fellow subsidiaries	a	2,294	2,569
Rental and facilities management charges paid or payable to fellow subsidiaries	a	142	143
Key management compensation	b	68	67

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

b. Details of key management compensation

In HK\$ million	2016	2017
Salaries and other short-term employee benefits	66	65
Post-employment benefits	2	2
	68	67

c. Balances with related companies and fellow subsidiaries

Other than as specified in notes 20 and 21, the net amounts due to fellow subsidiaries and the net amount due from/to related companies as at December 31, 2016 and 2017 are unsecured, non-interest bearing and have no fixed repayment terms.

December 31, 2017

7 REVENUE

In HK\$ million	2016	2017
Telecommunications and other services revenue	28,279	28,600
Sales of goods	5,516	4,596
Rental income	52	62
	33,847	33,258

8 SEGMENT INFORMATION

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

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

- Telecommunications Services ("TSS") is the leading provider of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.
- Mobile includes the Groups' mobile telecommunications businesses in Hong Kong.
- Other businesses of the Groups ("Other Businesses") primarily comprises new business areas such as Tap & Go mobile payment service and The Club program, and corporate support functions.

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

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

8 SEGMENT INFORMATION (CONTINUED)

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

In HK\$ million	TSS	Mobile	2016 Other Businesses	Eliminations	Total
Revenue					
External revenue	20,547	13,063	237	–	33,847
Inter-segment revenue	867	–	–	(867)	–
Total revenue	21,414	13,063	237	(867)	33,847
Results					
EBITDA	7,671	5,513	(500)	–	12,684
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,358	1,347	173	–	2,878
2017					
In HK\$ million	TSS	Mobile	Other Businesses	Eliminations	Total
Revenue					
External revenue	20,991	12,018	249	–	33,258
Inter-segment revenue	850	–	–	(850)	–
Total revenue	21,841	12,018	249	(850)	33,258
Results					
EBITDA	7,816	5,757	(576)	–	12,997
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,641	880	134	–	2,655

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8 SEGMENT INFORMATION (CONTINUED)

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

In HK\$ million	2016	2017
Total segment EBITDA	12,684	12,997
Gain/(loss) on disposal of property, plant and equipment and intangible assets, net	3	(1)
Depreciation and amortization	(5,808)	(5,685)
Other losses, net	(51)	(145)
Finance costs, net	(1,107)	(1,076)
Share of results of joint ventures	(10)	2
Share of results of associates	(13)	(12)
Profit before income tax	5,698	6,080

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

In HK\$ million	2016	2017
Hong Kong	28,717	27,884
Mainland China, Macau and Taiwan, China	743	579
Others	4,387	4,795
	33,847	33,258

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK\$79,180 million as at December 31, 2017 (2016: HK\$77,477 million). The total of these non-current assets located in other countries are HK\$2,448 million as at December 31, 2017 (2016: HK\$2,604 million).

9 OTHER LOSSES, NET

In HK\$ million	2016	2017
Gain on disposal on an available-for-sale financial asset	–	6
Provision for impairment on interests in associates	–	(154)
Provision for impairment on an available-for-sale financial asset	(54)	–
Net gain on fair value hedging instruments	4	–
Others	(1)	3
	(51)	(145)

10 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK\$ million	2016	2017
Salaries, bonuses and other benefits	3,068	2,453
Share-based compensation expenses	53	50
Retirement costs for staff under defined contribution retirement schemes	293	309
	3,414	2,812
Less: Staff costs included in cost of sales	(848)	(844)
Staff costs included in general and administrative expenses	2,566	1,968

b. Other items

In HK\$ million	2016	2017
Crediting:		
Gross rental income	52	62
Exchange gain/(loss), net	34	(311)
Less: Cash flow hedges – transferred from equity	(48)	332
Charging:		
Impairment loss for doubtful debts	303	259
Provision for inventory obsolescence	6	12
(Gain)/loss on disposal of property, plant and equipment and intangible assets, net	(3)	1
Depreciation of property, plant and equipment	1,432	1,381
Amortization of land lease premium	12	13
Amortization of intangible assets	4,364	4,291
Cost of inventories sold	5,032	4,044
Cost of sales, excluding inventories sold	9,413	10,117
Remuneration to the Company's auditor		
– audit and audit related services	15	12
– non-audit services	2	1
Remuneration to other auditors		
– audit and audit related services	3	7
– non-audit services	–	2
Operating lease rental	1,216	1,360

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11 FINANCE COSTS, NET

In HK\$ million	2016	2017
Interest expenses	(1,083)	(1,157)
Notional accretion on carrier licence fee liabilities	(83)	(52)
Other borrowing costs	(5)	(2)
Cash flow hedges: changes in fair value	(1)	54
Impact of re-designation of fair value hedges	(16)	(16)
	(1,188)	(1,173)
Interest capitalized in property, plant and equipment (<i>note (a)</i>)	43	53
Total finance costs	(1,145)	(1,120)
Interest income	38	44
Finance costs, net	(1,107)	(1,076)

- a. The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.07% to 3.16% for the year ended December 31, 2017 (2016: from 3.08% to 3.43%).

12 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

In HK\$ million	2016							Total
	Directors' fees	Salaries	Allowances	Benefits in kind ¹	Bonuses ²	Retirement scheme contributions	Share-based compensation ³	
Executive directors								
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–
Alexander Anthony Arena	–	10.29 ⁴	10.29	0.03	14.81	1.54	6.08	43.04
Hui Hon Hing, Susanna	–	3.65	2.09	0.03	6.42	0.44	8.19	20.82
Non-executive directors								
Srinivas Bangalore Gangaiah	–	–	–	–	–	–	–	–
Peter Anthony Allen	–	–	–	–	–	–	–	–
Chung Cho Yee, Mico	0.23	–	–	–	–	–	–	0.23
Lu Yimin	0.23 ⁵	–	–	–	–	–	–	0.23
Li Fushen	0.23 ⁶	–	–	–	–	–	–	0.23
Independent non-executive directors								
Professor Chang Hsin Kang	0.23	–	–	–	–	–	–	0.23
Sunil Varma	0.35 ⁷	–	–	–	–	–	–	0.35
Aman Mehta	0.35 ⁸	–	–	–	–	–	–	0.35
Frances Waikwun Wong	0.35 ⁹	–	–	–	–	–	–	0.35
	1.97	13.94	12.38	0.06	21.23	1.98	14.27	65.83

Notes:

- 1 Benefits in kind mainly includes medical insurance premium.
- 2 Bonus amounts shown above represent the 2015 bonuses that were paid in 2016. It was determined by reference to the Groups and the individual performance during the year ended December 31, 2015.
- 3 Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2016 for respective directors under the share award schemes.
- 4 Excludes remuneration for duties performed for related companies.
- 5 Fee receivable as a non-executive director in 2016 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited.
- 6 Fee receivable as a non-executive director in 2016 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited.
- 7 Includes HK\$115,000 fee as Chairman of Audit Committee.
- 8 Includes HK\$115,000 fee as Chairman of Nomination Committee.
- 9 Includes HK\$115,000 fee as Chairwoman of Remuneration Committee.

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12 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)**a. Directors' emoluments – cash and cash equivalents paid/payable (continued)**

In HK\$ million	2017							Total
	Directors' fees	Salaries	Allowances	Benefits in kind ¹	Bonuses ²	Retirement scheme contributions	Share-based compensation ³	
Executive directors								
Li Tzar Kai, Richard	-	-	-	-	-	-	-	-
Alexander Anthony Arena	-	10.38 ⁴	10.38	0.03	12.20	1.56	12.83	47.38
Hui Hon Hing, Susanna	-	3.68	2.11	0.03	5.29	0.44	9.37	20.92
Non-executive directors								
Srinivas Bangalore Gangaiah	-	-	-	-	-	-	-	-
Peter Anthony Allen	-	-	-	-	-	-	-	-
Chung Cho Yee, Mico	0.24	-	-	-	-	-	-	0.24
Lu Yimin	0.24 ⁵	-	-	-	-	-	-	0.24
Li Fushen	0.24 ⁶	-	-	-	-	-	-	0.24
Independent non-executive directors								
Professor Chang Hsin Kang	0.24	-	-	-	-	-	-	0.24
Sunil Varma	0.36 ⁷	-	-	-	-	-	-	0.36
Aman Mehta	0.36 ⁸	-	-	-	-	-	-	0.36
Frances Waikwun Wong	0.36 ⁹	-	-	-	-	-	-	0.36
	2.04	14.06	12.49	0.06	17.49	2.00	22.20	70.34

Notes:

- Benefits in kind mainly includes medical insurance premium.
- Bonus amounts shown above represent the 2016 bonuses that were paid in 2017. It was determined by reference to the Groups and the individual performance during the year ended December 31, 2016.
- 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.
- Excludes remuneration for duties performed for related companies.
- Fee receivable as a non-executive director in 2017 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited.
- Fee receivable as a non-executive director in 2017 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited.
- Includes HK\$118,450 fee as Chairman of Audit Committee.
- Includes HK\$118,450 fee as Chairman of Nomination Committee.
- Includes HK\$118,450 fee as Chairwoman of Remuneration Committee.

12 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

b. Directors' other services

No other emoluments were paid to or receivable by any director in respect of directors' other services in connection with the management of the affairs of the Company or its subsidiary undertakings during the year ended December 31, 2017 (2016: nil).

c. Directors' retirement benefits

No retirement benefits were paid to or receivable by any director during the year ended December 31, 2017 by a defined contribution retirement scheme operated by the Groups in respect of services as a director of the Company and its subsidiaries (2016: nil). No other retirement benefits were paid to or receivable by any director in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertakings during the year ended December 31, 2017 (2016: nil).

d. Directors' termination benefits

No directors' emoluments, retirements benefits, payments or benefits in respect of termination of directors' services were paid to or receivable by the directors during the year ended December 31, 2017 (2016: nil).

e. Consideration provided to third parties for making available directors' services

No consideration was provided to or receivable by third parties for making available directors' services during the year ended December 31, 2017 (2016: nil).

f. Information about loans, quasi-loans and other dealings entered into by the Company or subsidiary undertakings of the Company, where applicable, in favour of directors

There were no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected parties during the year ended December 31, 2017 (2016: nil).

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

No significant transactions, arrangements and contracts in relation to the Groups' business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the year ended December 31, 2017 (2016: nil).

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12 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)**h. Individuals with highest emoluments**

- i. Of the five individuals with the highest emoluments, two (2016: two) are directors of the Company and the Trustee-Manager whose emoluments are disclosed in note 12(a). The emoluments in respect of the three (2016: three) non-director individuals for the year ended December 31, 2017 were as follows:

In HK\$ million	2016	2017
Salaries, allowances and benefits in kind	10.51	10.73
Bonuses	2.41	2.54
Retirement scheme contributions	0.84	0.86
Share-based compensation	3.26	3.34
	17.02	17.47

- ii. The emoluments of the three (2016: three) non-director individuals for the year ended December 31, 2017 were within the following emolument ranges:

	Number of individuals	
	2016	2017
HK\$5,000,001 – HK\$5,500,000	2	1
HK\$5,500,001 – HK\$6,000,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	1
	3	3

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

In HK\$ million	2016	2017
Hong Kong profits tax		
– provision for current year	646	838
– over provision for prior year	–	(34)
Overseas tax		
– provision for current year	46	33
– under provision for prior year	6	5
Movement of deferred income tax (note 31(a))	73	129
	771	971

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year.

Overseas tax has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective jurisdictions.

13 INCOME TAX (CONTINUED)

b. Reconciliation between income tax expense and accounting profit at applicable tax rate:

In HK\$ million	2016	2017
Profit before income tax	5,698	6,080
Notional tax on profit before income tax, calculated at the Hong Kong tax rate of 16.5% (2016: 16.5%)	940	1,003
Effect of different tax rates of subsidiaries operating overseas	4	13
Income not subject to tax	(31)	(26)
Expenses not deductible for tax purposes	36	99
Tax losses not recognized	65	78
Under/(over) provision in respect of prior years	6	(29)
Utilization of previously unrecognized tax losses	(32)	(24)
Recognition of tax losses	(221)	(290)
Recognition of previously unrecognized temporary differences	–	65
Effect on change of corporate tax rate	–	80
Net losses of associates and joint ventures not deductible for tax purpose	4	2
Income tax expense	771	971

The slight increase in the effective tax rate for the year ended December 31, 2017 was mainly contributed by the one-off non-cash movement in deferred tax assets due to the enactment of the 2017 tax reform legislation in the United States.

14 DISTRIBUTIONS/DIVIDENDS

In HK\$ million	2016	2017
Interim distribution/dividend declared and paid in respect of current year of 28.12 HK cents (2016: 27.09 HK cents) per Share Stapled Unit/ordinary share of the Company	2,051	2,129
Less: Distribution/dividend for Share Stapled Units/shares held by the Company's Share Stapled Units Award Schemes	(1)	–
	2,050	2,129
Final distribution/dividend declared in respect of previous financial year, approved and paid during the year of 34.76 HK cents (2016: 28.27 HK cents) per Share Stapled Unit/ordinary share of the Company	2,141	2,632
Less: Distribution/dividend for Share Stapled Units/shares held by the Company's Share Stapled Units Award Schemes	(1)	(2)
	2,140	2,630
	4,190	4,759

For the year ended December 31, 2017, the Company proposed a final dividend of 36.75 HK cents per ordinary share, totaling HK\$2,783 million (2016: 34.76 HK cents per ordinary share, totaling HK\$2,632 million) to HKT Trust after the end of the reporting period.

For the year ended December 31, 2017, HKT Trust proposed a final distribution of 36.75 HK cents per Share Stapled Unit, totaling HK\$2,783 million (2016: 34.76 HK cents per Share Stapled Unit, totaling HK\$2,632 million) to holders of Share Stapled Units after the end of the reporting period.

The final distribution/dividend proposed after the end of the reporting period, referred to above, have not been recognized as liabilities as at the end of the reporting period.

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15 EARNINGS PER SHARE STAPLED UNIT/SHARE OF THE COMPANY

The calculations of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the following data:

	2016	2017
Earnings (in HK\$ million)		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	4,889	5,097
Number of Share Stapled Units/shares of the Company		
Weighted average number of Share Stapled Units/ordinary shares of the Company	7,571,742,334	7,571,742,334
Effect of Share Stapled Units held under the Company's Share Stapled Units Award Schemes	(6,386,484)	(2,233,258)
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of basic earnings per Share Stapled Unit/share of the Company	7,565,355,850	7,569,509,076
Effect of Share Stapled Units awarded under the Company's Share Stapled Units Award Schemes	4,884,955	2,832,205
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of diluted earnings per Share Stapled Unit/share of the Company	7,570,240,805	7,572,341,281

16 PROPERTY, PLANT AND EQUIPMENT

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

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In HK\$ million	2017					Total
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	
Cost						
Beginning of year	1,389	21,334	24,014	13,112	1,726	61,575
Additions	–	490	249	401	1,515	2,655
Transfers	–	579	481	265	(1,325)	–
Disposals	–	(242)	(127)	(69)	–	(438)
Exchange differences	–	22	191	31	–	244
End of year	1,389	22,183	24,808	13,740	1,916	64,036
Accumulated depreciation and impairment						
Beginning of year	655	17,351	15,174	10,376	–	43,556
Charge for the year	29	405	475	472	–	1,381
Disposals	–	(225)	(127)	(66)	–	(418)
Exchange differences	–	21	95	15	–	131
End of year	684	17,552	15,617	10,797	–	44,650
Net book value						
End of year	705	4,631	9,191	2,943	1,916	19,386
Beginning of year	734	3,983	8,840	2,736	1,726	18,019

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

During the year ended December 31, 2017, the Groups performed a review to reassess the useful lives of certain property, plant and equipment of the Groups, based on the expectations of the Groups’ operational management and technological trend. The reassessment has resulted in changes in the estimated useful lives of these assets. The Groups consider this to be a change in accounting estimate and therefore accounted for the change on a prospective basis. As a result of this change in accounting estimate, the Groups’ profit attributable to the holders of Share Stapled Units/shares of the Company for the year ended December 31, 2017 increased by HK\$115 million (2016: HK\$401 million) and the equity attributable to the holders of Share Stapled Units/shares of the Company as at December 31, 2017 increased by HK\$115 million (2016: HK\$401 million).

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17 INTERESTS IN LEASEHOLD LAND

In HK\$ million	2016	2017
Cost		
Beginning of year and end of year	536	536
Accumulated amortization		
Beginning of year	271	283
Charge for the year	12	13
End of year	283	296
Net book value		
End of year	253	240
Beginning of year	265	253

18 GOODWILL

In HK\$ million	2016	2017
Cost		
Beginning of year	49,817	49,787
Exchange differences	(30)	27
End of year	49,787	49,814

18 GOODWILL (CONTINUED)

Impairment tests for CGUs containing goodwill

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

In HK\$ million	2016	2017
TSS		
– Local telephony and data services	31,187	31,187
– Global	1,247	1,269
– Others	500	505
Mobile	16,853	16,853
Total	49,787	49,814

Due to restructuring of certain business units during 2017, goodwill attributable to certain CGUs has been reviewed and re-allocated accordingly. The comparative information is presented in line with current year's basis.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management generally covering a five-year period. Cash flows beyond the projection period are extrapolated using the estimated terminal growth rates stated below.

The key assumptions used for value-in-use calculations in 2016 and 2017 are as follows:

	2016				2017			
	Revenue growth rate	EBITDA growth rate	Terminal growth rate	Discount rate	Revenue growth rate	EBITDA growth rate	Terminal growth rate	Discount rate
TSS								
– Local telephony and data services	1%	1%	1%	8%	1%	1%	1%	7%
– Global	1%	4%	3%	10%	1%	6%	3%	9%
Mobile	2%	5%	2%	9%	1%	3%	2%	11%

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

There was no impairment required from the review on goodwill as at October 31, 2017.

Management determined budgeted revenue and EBITDA growth rates based on past performance and its expectations for market development. The average growth rates used are consistent with the forecasts included in industry reports. The terminal growth rates do not exceed the long-term average growth rates for the businesses in which the CGUs operate. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

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19 INTANGIBLE ASSETS

In HK\$ million	2016						Total
	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Software	Others	
Cost							
Beginning of year	1,868	4,157	4,968	2,773	1,197	14	14,977
Additions	–	2,061	2,900	–	623	175	5,759
Write-off	–	(1,143)	(2,540)	–	–	(175)	(3,858)
Exchange differences	(10)	–	–	(10)	–	–	(20)
End of year	1,858	5,075	5,328	2,763	1,820	14	16,858
Accumulated amortization							
Beginning of year	291	1,827	2,491	775	265	14	5,663
Charge for the year	93	520	2,834	459	283	175	4,364
Write-off	–	(1,143)	(2,540)	–	–	(175)	(3,858)
Exchange differences	(2)	–	–	(4)	–	–	(6)
End of year	382	1,204	2,785	1,230	548	14	6,163
Net book value							
End of year	1,476	3,871	2,543	1,533	1,272	–	10,695
Beginning of year	1,577	2,330	2,477	1,998	932	–	9,314
2017							
In HK\$ million	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost							
Beginning of year	1,858	5,075	5,328	2,763	1,820	14	16,858
Additions	–	103	3,333	–	869	178	4,483
Write-off	–	–	(2,811)	–	–	(178)	(2,989)
Disposals	–	–	–	(1)	–	–	(1)
Exchange differences	4	–	4	5	–	–	13
End of year	1,862	5,178	5,854	2,767	2,689	14	18,364
Accumulated amortization							
Beginning of year	382	1,204	2,785	1,230	548	14	6,163
Charge for the year	93	413	2,950	460	197	178	4,291
Write-off	–	–	(2,811)	–	–	(178)	(2,989)
Exchange differences	1	–	1	2	–	–	4
End of year	476	1,617	2,925	1,692	745	14	7,469
Net book value							
End of year	1,386	3,561	2,929	1,075	1,944	–	10,895
Beginning of year	1,476	3,871	2,543	1,533	1,272	–	10,695

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

20 INTERESTS IN ASSOCIATES

In HK\$ million	2016	2017
Share of net assets of associates	63	66
Loans due from associates, net	214	235
Provision for impairment	(147)	(301)
	130	–
Investments at cost, unlisted	106	115

During the year ended December 31, 2017, provision for impairment of HK\$154 million (2016: nil) was included in the other losses, net in the consolidated income statement. This was resulted from the revised expectation that the carrying value of the associates is no longer recoverable.

a. As at December 31, 2017, the Groups considered that there was no principal associate.

As at December 31, 2016 and 2017, particulars of the associates of the Groups are as follows:

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

Unofficial company name

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

b. Commitments and contingent liabilities in respect of the associates

As at December 31, 2017, the Groups’ share of its associates’ commitments were as follows:

In HK\$ million	2016	2017
Operating lease commitments		
– within 1 year	4	5
– after 1 year but within 5 years	4	6

The Groups’ contingent liabilities relating to its associates are disclosed in note 37. As at December 31, 2017, the Groups had no share of contingent liabilities related to the associates (2016: nil).

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20 INTERESTS IN ASSOCIATES (CONTINUED)**c. Summarized unaudited financial information of the Groups' associates**

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

In HK\$ million	DJTCL		Latto	
	2016	2017	2016	2017
Non-current assets	3	3	52	56
Current assets	72	72	16	8
Non-current liabilities	–	–	–	–
Current liabilities	(426)	(467)	(16)	(21)
In HK\$ million	2016	2017	2016	2017
Revenue	227	321	4	17
Loss after income tax and total comprehensive loss	(29)	(22)	(10)	(11)
Dividend received from associates	–	–	–	–

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

d. Reconciliation of summarized financial information

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

In HK\$ million	DJTCL		Latto	
	2016	2017	2016	2017
Net assets/(liabilities)				
Beginning of year	(344)	(351)	–	52
Net asset value at date of acquisition	–	–	64	–
Loss for the year/since acquisition	(29)	(22)	(10)	(11)
Exchange differences	22	(19)	(2)	2
End of year	(351)	(392)	52	43
Interests in associates	35%	35%	33.5%	33.5%
Interests in associates	(123)	(137)	17	14
Goodwill	24	24	46	52
Loans due from associates (note (i))	313	340	–	8
Provision for impairment	(147)	(227)	–	(74)
Carrying value	67	–	63	–

- (i) As at December 31, 2017, loans due from DJTCL comprised unsecured loans totaling HK\$160 million (2016: HK\$118 million) which bear interest at 4% per annum and repayable in 1 year (2016: same), and certain secured loans totaling HK\$180 million (2016: HK\$195 million) which bear interest at 4% per annum and repayable in 1 year (2016: same). The loan due from Latto amounted to HK\$8 million (2016: nil), which bears interest at 8% per annum, is secured and repayable in 2 years. The amounts are considered as equity in nature for which full provision for impairment has been made at December 31, 2017.

During the year ended December 31, 2017, the Groups did not have any unrecognized share of losses of associates (2016: nil). As at December 31, 2017, there was no accumulated share of losses of the associates unrecognized by the Groups (2016: nil).

21 INTERESTS IN JOINT VENTURES

In HK\$ million	2016	2017
Share of net assets of joint ventures	270	279
Loans due from joint ventures, net	455	441
	725	720
Investments at cost, unlisted	278	278

As at December 31, 2017, the loan due from a joint venture of HK\$426 million (2016: HK\$446 million) bears interest at HIBOR plus 3% per annum (2016: same). All the loans are unsecured and have no fixed terms of repayment. The amounts are considered as part of the interests in joint ventures.

a. As at December 31, 2017, particulars of the principal joint venture of the Groups are as follows:

Company name	Principal place of business/ Place of incorporation	Principal activities	Value of issued capital	Interest held by the Company		Measurement method
				Directly	Indirectly	
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK\$10,000	–	50%	Equity

GBL is a strategic partnership of the Groups, providing access to advance connectivity services in Hong Kong for the development of mobile business.

The above principal joint venture is a private company and there is no quoted market price available for its shares.

b. Commitments and contingent liabilities in respect of joint ventures

As at December 31, 2017, the Groups' share of its joint ventures' commitments were as follows:

In HK\$ million	2016	2017
Commitment to provide funding	87	86
Capital commitments		
– Authorized & contracted for acquisition of property, plant and equipment	–	56
Operating lease commitments		
– within 1 year	5	9
– after 1 year but within 5 years	7	13

There were no contingent liabilities relating to the Groups' interests in the joint ventures. As at December 31, 2017, the Groups' had no share of contingent liabilities related to the joint ventures (2016: HK\$39 million bank guarantees).

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21 INTERESTS IN JOINT VENTURES (CONTINUED)**c. Summarized unaudited financial information of the Groups' principal joint venture**

Set out below is the summarized unaudited financial information of GBL, the principal joint venture of the Groups and being accounted for using the equity method:

In HK\$ million	2016	2017
Non-current assets	986	961
Current assets		
Cash and cash equivalents	30	12
Other current assets (excluding cash and cash equivalents)	25	30
Total current assets	55	42
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(275)	(285)
Other current liabilities (including trade payables, accruals and other payables)	(61)	(88)
Total current liabilities	(336)	(373)
Non-current liabilities		
Financial liabilities	(730)	(663)
Other non-current liabilities	(24)	(30)
Total non-current liabilities	(754)	(693)
Net liabilities	(49)	(63)
Equity attributable to equity holders	(49)	(63)
Revenue	219	245
Depreciation and amortization	(84)	(97)
Interest expense	(32)	(34)
Profit before income tax	1	1
Income tax	(10)	(15)
Loss after income tax and total comprehensive loss	(9)	(14)
Dividend received from the joint venture	–	–

For the year ended December 31, 2017, the aggregate total net amount of profit/(loss) after income tax and total comprehensive income/(loss) of the individually immaterial joint ventures that are accounted for using the equity method were profit of HK\$29 million (2016: loss of HK\$2 million) and profit of HK\$38 million (2016: HK\$5 million), respectively.

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

21 INTERESTS IN JOINT VENTURES (CONTINUED)

d. Reconciliation of summarized unaudited financial information of a principal joint venture

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Groups' interests in GBL, the principal joint venture.

In HK\$ million	2016	2017
Net liabilities		
Beginning of year	(40)	(49)
Loss and total comprehensive loss for the year	(9)	(14)
End of year	(49)	(63)
Interest in a joint venture	50%	50%
Interest in a joint venture	(24)	(32)
Loan due from a joint venture	446	426
Carrying value	422	394

As at December 31, 2017, the aggregate carrying amount of interests in individually immaterial joint ventures that are accounted for using the equity method was HK\$326 million (2016: HK\$303 million).

During the year ended December 31, 2017, the Groups did not have any unrecognized share of losses of joint ventures (2016: nil). As at December 31, 2017, there was no accumulated share of losses of the joint ventures unrecognized by the Groups (2016: nil).

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK\$ million	2016	2017
Beginning of year	7	77
Addition	77	–
Net loss transferred to equity (note 30)	(2)	–
Impairment loss recognized	(5)	–
End of year, unlisted equity securities	77	77

During the year ended December 31, 2017, no provision for impairment was included in other losses, net in the consolidated income statement. In 2016, HK\$54 million provision for impairment was included in other losses, net, of which HK\$49 million was transferred from equity to consolidated income statement on impairment as a result of the estimated recoverable amount being lower than its carrying amount. The Groups do not hold any collateral over these securities.

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23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK\$ million	2016	2017
Listed securities	44	37
Less: Securities held for employee share award to be vested within one year classified as current assets	(13)	(17)
Non-current portion	31	20

Financial assets at fair value through profit or loss represent shares of PCCW, acquired under the PCCW Purchase Scheme. Please refer to note 28(b)(iv) for details of the share award schemes of PCCW.

24 INTERESTS IN SUBSIDIARIES

a. As at December 31, 2017, particulars of the principal subsidiaries of the Company are as follows:

Company name	Country/ place of incorporation/ establishment and operation	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company		Principal activities
			Directly	Indirectly	
HKT Group Holdings Limited ("HKTGH")	Cayman Islands	US\$636,000,010	100%	–	Investment holding
HKT Services Limited	Hong Kong	HK\$1	–	100%	Provision of management services to group companies
Hong Kong Telecommunications (HKT) Limited ("HKTL")	Hong Kong	HK\$9,945,156,001	–	100%	Provision of telecommunications services
電訊盈科科技(北京)有限公司 ³ (PCCW Technology (Beijing) Limited ⁴)	The PRC	RMB40,000,000	–	100%	System integration, software development and technical services consultancy
CSL Mobile Limited	Hong Kong	HK\$7,900,280,100 ordinary shares and HK\$1,254,000,000 non-voting deferred shares	–	100%	Provision of mobile services to its customers and the sale of mobile handsets and accessories
Sun Mobile Limited	Hong Kong	HK\$41,600,000	–	60% ¹	Provision of mobile telecommunications services to customers in Hong Kong
Gateway Global Communications Limited	United Kingdom	GBP1	–	100%	Provision of network-based telecommunications services to external customers and related companies

24 INTERESTS IN SUBSIDIARIES (CONTINUED)

a. As at December 31, 2017, particulars of the principal subsidiaries of the Company are as follows: (continued)

Company name	Country/ place of incorporation/ establishment and operation	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company		Principal activities
			Directly	Indirectly	
PCCW Global B.V.	Netherlands/ France	EUR18,000	–	100%	Sales, distribution and marketing of telecommunication services and products
PCCW Global, Inc.	Delaware, U.S.	US\$18.01	–	100%	Supply of broadband Internet access solutions and web services
PCCW Global Limited	Hong Kong/ Dubai Media City	HK\$240,016,690.65	–	100%	Provision of network-based telecommunications services
PCCW Global (HK) Limited	Hong Kong	HK\$10	–	100%	Provision of satellite-based and network-based telecommunications services
Gateway Communications (Proprietary) Limited	South Africa	ZAR1,000	–	100%	Sales and distribution of integrated global communications solutions to customers in South Africa
HKT Global (Singapore) Pte. Ltd.	Singapore/ Malaysia	S\$60,956,485.64	–	100%	Provision of telecommunications solutions related services
PCCW Global (Japan) K.K.	Japan	JPY10,000,000	–	100%	Provision of telecommunications services
PCCW (Macau), Limitada	Macau	MOP2,000,000	–	75% ²	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services

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24 INTERESTS IN SUBSIDIARIES (CONTINUED)**a. As at December 31, 2017, particulars of the principal subsidiaries of the Company are as follows: (continued)**

Company name	Country/ place of incorporation/ establishment and operation	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company		Principal activities
			Directly	Indirectly	
廣州電盈綜合客戶服務技術 發展有限公司 ³ (PCCW Customer Management Technology and Services (Guangzhou) Limited ⁴)	The PRC	HK\$93,240,000	–	100%	Customer service and consultancy
HKT Teleservices International Limited	Hong Kong	HK\$350,000,002	–	100%	Provision of customer relationship management and customer contact management solutions and services

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

Notes:

1. The equity interest held by non-controlling interests is 40% as at December 31, 2017.
2. The equity interest held by non-controlling interests is 25% as at December 31, 2017.
3. Represents a wholly foreign owned enterprise.
4. Unofficial company name.

b. Non-controlling interests of the Groups' subsidiaries

The total non-controlling interests as at December 31, 2017 were HK\$40 million (2016: HK\$63 million), of which HK\$33 million (2016: HK\$51 million) was attributable to non-controlling interests in Sun Mobile Limited and PCCW (Macau), Limitada.

25 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK\$ million	2016	2017
Work-in-progress	271	331
Finished goods	360	359
Consumable inventories	76	59
	707	749

b. Trade receivables, net

In HK\$ million	2016	2017
Trade receivables (<i>note (i)</i>)	3,225	2,970
Less: Impairment loss for doubtful debts (<i>note (ii)</i>)	(190)	(183)
Trade receivables, net	3,035	2,787

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

	2016	2017
1–30 days	1,910	2,008
31–60 days	394	207
61–90 days	245	170
91–120 days	137	99
Over 120 days	539	486
	3,225	2,970

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25 CURRENT ASSETS AND LIABILITIES (CONTINUED)**b. Trade receivables, net (continued)****ii. Impairment loss for doubtful debts**

The movements in the provision for doubtful debts during the year, including both specific and collective loss components, are as follows:

In HK\$ million	2016	2017
Beginning of year	168	190
Impairment loss recognized	303	259
Uncollectible amounts written off	(281)	(266)
End of year	190	183

As at December 31, 2017, trade receivables of HK\$183 million (2016: HK\$190 million) were impaired. The individually impaired receivables mainly relate to customers that were in financial difficulties and management assessed that the receivables are not expected to be recovered. The Groups do not hold any collateral over these balances.

iii. Trade receivables that are not impaired

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

In HK\$ million	2016	2017
Neither past due nor impaired	1,611	1,781
1–30 days past due	603	394
31–60 days past due	145	109
61–90 days past due	179	105
Over 90 days past due	497	398
Past due but not considered impaired	1,424	1,006
	3,035	2,787

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not considered impaired relate to customers that have a good track record with the Groups or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in trade receivables, net of the Groups were the amounts due from related parties of HK\$36 million (2016: HK\$12 million).

25 CURRENT ASSETS AND LIABILITIES (CONTINUED)

c. Restricted cash

As at December 31, 2017, cash balance of HK\$51 million (2016: HK\$36 million) has been received from and restricted for the use of certain customers.

d. Trade payables

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

In HK\$ million	2016	2017
1–30 days	1,557	1,257
31–60 days	154	125
61–90 days	82	39
91–120 days	32	46
Over 120 days	649	407
	2,474	1,874

Included in trade payables of the Groups were the amounts due to related parties of HK\$50 million (2016: HK\$58 million).

26 LONG-TERM BORROWINGS

In HK\$ million	2016	2017
Repayable within a period		
– over one year, but not exceeding two years	1,194	9,350
– over two years, but not exceeding five years	19,735	12,164
– over five years	17,264	17,632
	38,193	39,146
Representing:		
US\$500 million 3.75% guaranteed notes due 2023 (note (a))	3,736	3,787
US\$300 million zero coupon guaranteed notes due 2030 (note (b))	2,311	2,329
US\$500 million 3.625% guaranteed notes due 2025 (note (c))	3,829	3,863
EUR200 million 1.65% guaranteed notes due 2027 (note (d))	1,613	1,830
US\$750 million 3.00% guaranteed notes due 2026 (note (e))	5,775	5,823
Bank borrowings	20,929	21,514
	38,193	39,146
Secured	–	–
Unsecured	38,193	39,146

26 LONG-TERM BORROWINGS (CONTINUED)**a. US\$500 million 3.75% guaranteed notes due 2023**

On March 8, 2013, PCCW-HKT Capital No.5 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

b. US\$300 million zero coupon guaranteed notes due 2030

On January 15, 2015, HKT Capital No. 1 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$300 million zero coupon guaranteed notes due 2030, which are listed on the Taipei Exchange in Taiwan, China. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

c. US\$500 million 3.625% guaranteed notes due 2025

On April 2, 2015, HKT Capital No. 2 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$500 million 3.625% guaranteed notes due 2025, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

d. EUR200 million 1.65% guaranteed notes due 2027

On April 10, 2015, HKT Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, issued EUR200 million 1.65% guaranteed notes due 2027, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

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

On July 14, 2016, HKT Capital No. 4 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$750 million 3.00% guaranteed notes due 2026, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

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

27 DERIVATIVE FINANCIAL INSTRUMENTS

In HK\$ million	2016	2017
Non-current assets		
Fixed-to-fixed cross currency swap and foreign exchange forward contracts – cash flow hedges (note (a)&(b))	215	183
Floating-to-fixed interest rate swap contract – cash flow hedges (note (c))	62	40
	277	223
Non-current liabilities		
Fixed-to-fixed cross currency swap and foreign exchange forward contracts – cash flow hedges (note (a)&(b))	14	150

- a. Fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2017 with notional contract amounts of US\$1,250 million (approximately HK\$9,694 million) (2016: US\$1,250 million (approximately HK\$9,694 million)) were designated as cash flow hedge of the foreign currency risk in the Groups' foreign currency denominated borrowings. Maturity of these swap contracts matches with the maturity of the underlying borrowings and the Groups have fixed the USD/HKD exchange rate at 7.7544-7.7580 (2016: 7.7544-7.7580) for the notional amounts (see note 35(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contracts represents the effective portion on the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the borrowings.

As at December 31, 2017, the Groups had outstanding foreign exchange forward contract with notional contract amount of US\$376 million (approximately HK\$2,905 million) (2016: US\$376 million (approximately HK\$2,905 million)). The contract was designated as cash flow hedge of the foreign currency risk in the Groups' foreign currency denominated borrowings. The Groups have fixed the USD/HKD exchange rate at 7.733 (2016: 7.733) for the notional amounts (see note 35(c)(i)). The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance cost, net", representing the ineffective portion of hedging relationship, amounted to a loss of approximately HK\$15 million for the year ended December 31, 2017 (2016: gain of approximately HK\$15 million).

As at December 31, 2017, the Groups had an outstanding fixed-to-fixed cross currency swap contract with notional contract amount of EUR200 million (approximately HK\$1,665 million) (2016: EUR200 million (approximately HK\$1,665 million)). The contract was designated as cash flow hedge of the foreign currency risk in the Groups' foreign currency denominated borrowings. Maturity of this swap contract matches with the maturity of the underlying borrowings and the Groups have fixed the EUR/HKD exchange rate at 8.3245 (2016: 8.3245) for the notional amount (see note 35(c)(i)). The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance cost, net", representing the ineffective portion of hedging relationship, amounted to a gain of approximately HK\$28 million for the year ended December 31, 2017 (2016: nil).

27 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

- b. As at December 31, 2017, the Groups had fixed-to-floating cross currency swap contracts with an aggregate notional contract amount of US\$500 million (approximately HK\$3,879 million) (2016: US\$500 million (approximately HK\$3,879 million)). Maturity of these swap contracts matches with the maturity of the underlying fixed rate borrowings and the Groups have fixed the USD/HKD exchange rate at 7.7570 (2016: 7.7570) for the notional amounts (see note 35(c)(i)). The Groups further entered into floating-to-fixed interest rate swap contracts with an aggregate notional amount of approximately HK\$3,879 million (2016: approximately HK\$3,879 million). Accordingly, the Groups had a synthetic fixed-to-fixed cross currency swap contract position and re-designated such swap contracts as cash flow hedges. The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance cost, net", representing the ineffective portion of hedging relationship, amounted to a gain of approximately HK\$38 million for the year ended December 31, 2017 (2016: loss of approximately HK\$17 million).
- c. As at December 31, 2017, the Groups had a floating-to-fixed interest rate swap contract with notional contract amount of HK\$1,500 million. The contract pre-determined the interest rate at a fixed level. The contract was designated as cash flow hedge of the interest rate risk in the Groups' floating rate borrowings (see note 35 (c)(ii)). The gain/loss recognized in the hedging reserves under equity represents the effective portion of the hedging relationship, and will be continuously released to the consolidated income statement until the repayment of the underlying borrowings. The gain/loss recognized in the "Finance cost, net", representing the ineffective portion of hedging relationship, amounted to a gain of approximately HK\$3 million for the year ended December 31, 2017 (2016: gain of approximately HK\$1 million).

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

Gains and losses recognized in the hedging reserve under equity on those swap and forward contracts designated as cash flow hedges will be continuously released to the consolidated income statement until the repayment of the borrowings.

28 EMPLOYEE BENEFITS**a. Employee retirement benefits – Defined contribution retirement schemes**

The Groups operate defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Groups.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a current cap of monthly relevant income of HK\$30,000. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

28 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits

i. Share Option Scheme of PCCW

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

- (i) The purpose of the 2014 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in PCCW and to encourage eligible participants to work towards enhancing the value of PCCW and its shares (the “PCCW Shares”) for the benefit of PCCW and its shareholders as a whole.
- (ii) Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of PCCW and its subsidiaries (the “PCCW Group”) or any member of it, whether in full time or part time employment of the PCCW Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the PCCW Group or any member of it and any other person whomsoever is determined by the PCCW Board as having contributed to the development, growth or benefit of the PCCW Group or any member of it or as having spent any material time in or about the promotion of the PCCW Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2014 Scheme.
- (iii) The maximum number of PCCW Shares in respect of which options may be granted under the 2014 Scheme shall not in aggregate exceed 10% of the PCCW Shares in issue as at the date of adoption of the 2014 Scheme. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders’ approval. The overall limit on the number of PCCW Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Scheme and other share option schemes of PCCW must not exceed 30% of the PCCW Shares in issue from time to time.
- (iv) The total number of PCCW Shares issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of PCCW, or any of their respective associates) under the 2014 Scheme in any 12-month period shall not exceed 1% of the PCCW Shares in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of PCCW, or any of their respective associates, the said limit is reduced to 0.1% of the PCCW Shares in issue and HK\$5 million in aggregate value based on the closing price of the PCCW Shares on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders’ approval at general meeting.
- (v) The 2014 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2014 Scheme shall be determined by the PCCW Board, provided that such terms and conditions shall not be inconsistent with the 2014 Scheme and no option may be exercised 10 years after the date of grant.
- (vi) The 2014 Scheme does not specify any consideration which is payable on the acceptance of an option. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant.

28 EMPLOYEE BENEFITS (CONTINUED)**b. Equity compensation benefits (continued)****i. Share Option Schemes of PCCW (continued)**

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

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

No share options have been granted under the 2014 Scheme since its adoption and up to and including December 31, 2017.

ii. Share Stapled Units Option Scheme

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

- (1) The purpose of the 2011-2021 Option Scheme is to enable the HKT Trust and the Company, acting jointly by mutual agreement between them, to grant options to the eligible participants as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants.
- (2) Eligible participants include (a) any full time or part time employee of the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of the Company and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries. The Trustee-Manager is not an eligible participant under the 2011-2021 Option Scheme.
- (3) (i) Notwithstanding any other provisions of the 2011-2021 Option Scheme, no options may be granted under the 2011-2021 Option Scheme if the exercise of the options may result in PCCW ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).

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

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

28 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

ii. Share Stapled Units Option Scheme (continued)

- (4) The total number of Share Stapled Units issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial holder of Share Stapled Units or an independent non-executive director of the Company, or any of their respective associates) under the 2011-2021 Option Scheme (including exercised, cancelled and outstanding options under the 2011-2021 Option Scheme) in any 12-month period shall not exceed 1% of the Share Stapled Units in issue at the relevant time. For options granted or to be granted to a substantial holder of Share Stapled Units or an independent non-executive director of the Company, or any of their respective associates, the said limit is reduced to 0.1% of the Share Stapled Units in issue and HK\$5 million in aggregate value based on the closing price of the Share Stapled Units on the date of each grant. Any further grant of Share Stapled Unit options in excess of such limits is subject to the approval of registered holders of Share Stapled Units at general meeting.
- (5) The 2011-2021 Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2011-2021 Option Scheme shall be determined by the Trustee-Manager Board and the Company Board, provided that such terms and conditions shall not be inconsistent with the 2011-2021 Option Scheme and no option may be exercised 10 years after the date of grant.
- (6) Upon acceptance of the offer, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price for grants requiring approval of holders of Share Stapled Units in accordance with the provisions of the 2011-2021 Option Scheme.
- (7) The subscription price for Share Stapled Units in respect of any particular option shall not be less than the highest of (i) the closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet for the 5 business days immediately preceding the date of grant; and (iii) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.
- (8) Subject to early termination by an ordinary resolution in general meeting of registered holders of Share Stapled Units or resolutions of the Company Board and the Trustee-Manager Board, the 2011-2021 Option Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date, after which period no further options shall be granted but the provisions of the 2011-2021 Option Scheme shall remain in full force and effect in all other respects.

No Share Stapled Unit options have been granted under the 2011-2021 Option Scheme since its adoption and up to and including December 31, 2017.

28 EMPLOYEE BENEFITS (CONTINUED)**b. Equity compensation benefits (continued)****iii. Share Stapled Units Award Schemes of the Company**

On October 11, 2011, the Company adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme, in respect of which the most recent changes were approved by the Approving Body (as defined below) on February 6, 2018 (collectively the "Share Stapled Units Award Schemes"). The purposes of the Share Stapled Units Award Schemes are to incentivize and reward participants for their contribution to the growth of the HKT Limited Group and to provide the HKT Limited Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the participants.

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

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

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

- (i) as a result of such subscription, PCCW's aggregate holding of Share Stapled Units would on a fully-diluted basis (which shall take into account the relevant subscription(s) proposed to be made under the HKT Share Stapled Units Subscription Scheme, the amount of all outstanding options in respect of Share Stapled Units as granted pursuant to the 2011-2021 Option Scheme, and all other rights or entitlements granted by the Company concerning the prospective allotment of new Share Stapled Units) represent less than 51% of the total number of Share Stapled Units as would exist were all such commitments to allot new Share Stapled Units to be duly fulfilled; or
- (ii) the Company does not have a relevant general mandate or specific mandate from holders of the Share Stapled Units necessary to effect the allotment and issue of Share Stapled Units pursuant to the scheme.

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

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

No Share Stapled Units have been awarded under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2017.

28 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

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

A summary of movements in the Share Stapled Units held under the HKT Share Stapled Units Purchase Scheme during the year is as follows:

	Number of Share Stapled Units	
	2016	2017
Beginning of year	9,596,941	5,197,383
Purchase from the market by the Trustee at weighted average market price of HK\$10.44 per Share Stapled Unit	–	540,000
Share Stapled Units vested	(4,399,558)*	(4,647,596)
End of year	5,197,383	1,089,787

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

Details of Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the unvested Share Stapled Units are as follows:

(1) Movements in the number of unvested Share Stapled Units and their related weighted average fair value at date of award

	2016		2017	
	Weighted average fair value at date of award HK\$	Number of Share Stapled Units	Weighted average fair value at date of award HK\$	Number of Share Stapled Units
Beginning of year	9.27	8,155,710	9.93	5,764,257
Awarded (note (3))	10.89	2,160,944	10.04	2,392,160
Forfeited (note (4))	9.57	(154,141)	10.01	(119,259)
Vested (note (5))	9.19	(4,398,256)	9.72	(4,647,596)
End of year (note (2))	9.93	5,764,257	10.30	3,389,562

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28 EMPLOYEE BENEFITS (CONTINUED)**b. Equity compensation benefits (continued)****iii. Share Stapled Units Award Schemes of the Company (continued)**

(2) Terms of unvested Share Stapled Units as at the end of the reporting period

Date of award	Vesting period	Fair value at date of award HK\$	Number of Share Stapled Units	
			2016	2017
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	2,881,371	–
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	1,215	–
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	749,315	–
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	640,488	–
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	639,494	613,158
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	426,187	–
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	426,187	426,187
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	1,175,589
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	1,174,628
			5,764,257	3,389,562

The unvested Share Stapled Units at December 31, 2017 had a weighted average remaining vesting period of 0.6 year (2016: 0.45 year).

(3) Details of Share Stapled Units awarded during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of Share Stapled Units	
			2016	2017
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	654,800	–
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	653,770	–
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	426,187	–
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	426,187	–
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	1,196,587
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	1,195,573
			2,160,944	2,392,160

28 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

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

(4) Details of Share Stapled Units forfeited during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of Share Stapled Units	
			2016	2017
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	8,772	–
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	23,200	–
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	67,450	33,202
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	–	333
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	7,665	–
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	18,466	7,148
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	14,312	10,297
April 5, 2016	April 5, 2016 to April 5, 2018	10.70	14,276	26,336
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	–	20,998
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	–	20,945
			154,141	119,259

(5) Details of Share Stapled Units vested during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of Share Stapled Units	
			2016	2017
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	709,786	–
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	2,926,276	–
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	2,848,169
April 1, 2015	April 1, 2015 to April 1, 2016	10.20	1,215	–
April 1, 2015	April 1, 2015 to April 1, 2017	10.20	–	882
May 7, 2015	May 7, 2015 to May 7, 2016	10.30	760,979	–
May 7, 2015	May 7, 2015 to May 7, 2017	10.30	–	742,167
April 5, 2016	April 5, 2016 to April 5, 2017	10.70	–	630,191
June 8, 2016	June 8, 2016 to April 5, 2017	11.18	–	426,187
			4,398,256	4,647,596

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

During the year ended December 31, 2017, share-based compensation expenses of HK\$25 million (2016: HK\$33 million) is recognized for the Share Stapled Units Award Schemes in the consolidated income statement and employee share-based compensation reserve in the consolidated statement of financial position, respectively.

28 EMPLOYEE BENEFITS (CONTINUED)**b. Equity compensation benefits (continued)****iv. Share award schemes of PCCW**

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

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

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

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

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

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

28 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

A summary of movements in PCCW Shares held by the Groups under the PCCW Share Award Schemes in respect of eligible employees of the Company and/or its subsidiaries during the year is as follows:

	Number of PCCW shares	
	2016	2017
Beginning of year	5,449,041	9,918,160
Purchase from the market by the Trustee at weighted average market price of HK\$4.79 per PCCW Share	–	2,022,000
PCCW Shares obtained under the PCCW Subscription Scheme	7,500,000	–
PCCW Shares vested	(3,030,881)*	(3,802,280)
End of year	9,918,160	8,137,880

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

Details of PCCW Shares awarded pursuant to the PCCW Share Award Schemes during the year and the unvested PCCW Shares, are as follows:

(1) Movements in the number of unvested PCCW Shares and their related weighted average fair value at date of award

	2016		2017	
	Weighted average fair value at date of award HK\$	Number of PCCW shares	Weighted average fair value at date of award HK\$	Number of PCCW shares
The PCCW Purchase Scheme:				
Beginning of year	5.01	1,428,837 [#]	5.20	2,821,647
Awarded (note (3))	5.17	2,286,122	4.60	2,406,839
Vested (note (5))	4.81	(893,312)	5.23	(1,678,590)
End of year (note (2))	5.20	2,821,647	4.78	3,549,896
The PCCW Subscription Scheme:				
Beginning of year	4.83	3,147,962 [#]	5.10	3,384,043
Awarded (note (3))	5.01	2,523,480	4.60	2,838,846
Forfeited (note (4))	4.96	(151,303)	4.83	(187,440)
Vested (note (5))	4.60	(2,136,096)	5.16	(2,123,690)
End of year (note (2))	5.10	3,384,043	4.72	3,911,759
Total		6,205,690		7,461,655

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

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28 EMPLOYEE BENEFITS (CONTINUED)**b. Equity compensation benefits (continued)****iv. Share award schemes of PCCW (continued)**

(2) Terms of unvested PCCW Shares as at the end of the reporting period

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW shares	
			2016	2017
The PCCW Purchase Scheme:				
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	535,525	–
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	197,799	–
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	197,791	197,791
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	945,266	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	945,266	945,266
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	1,203,424
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	1,203,415
			2,821,647	3,549,896
The PCCW Subscription Scheme:				
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	936,146	–
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	1,222,917	–
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,221,936	1,163,436
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	1,522	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	1,522
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	1,373,863
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	1,372,938
			3,384,043	3,911,759
Total			6,205,690	7,461,655

The PCCW Shares unvested at December 31, 2017 had a weighted average remaining vesting period of 0.6 years (2016: 0.68 years).

28 EMPLOYEE BENEFITS (CONTINUED)

b. Equity compensation benefits (continued)

iv. Share award schemes of PCCW (continued)

(3) Details of PCCW Shares awarded during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW shares	
			2016	2017
The PCCW Purchase Scheme:				
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	197,799	–
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	197,791	–
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	945,266	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	945,266	–
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	1,203,424
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	1,203,415
			2,286,122	2,406,839
The PCCW Subscription Scheme:				
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	1,260,728	–
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	1,259,708	–
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	1,522	–
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	1,522	–
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	1,419,915
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	1,418,931
			2,523,480	2,838,846
Total			4,809,602	5,245,685

(4) Details of PCCW Shares forfeited during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW shares	
			2016	2017
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	24,411	–
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	15,040	–
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	36,269	14,044
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	37,811	22,851
April 5, 2016	April 5, 2016 to April 5, 2018	5.01	37,772	58,500
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	–	46,052
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	–	45,993
			151,303	187,440

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28 EMPLOYEE BENEFITS (CONTINUED)**b. Equity compensation benefits (continued)****iv. Share award schemes of PCCW (continued)**

(5) Details of PCCW Shares vested during the year

Date of award	Vesting period	Fair value at date of award HK\$	Number of PCCW shares	
			2016	2017
The PCCW Purchase Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	357,780	–
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	535,532	–
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	–	535,525
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	–	197,799
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	–	945,266
			893,312	1,678,590
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	1,177,882	–
May 7, 2015	May 7, 2015 to May 7, 2016	5.35	958,214	–
May 7, 2015	May 7, 2015 to May 7, 2017	5.35	–	922,102
April 5, 2016	April 5, 2016 to April 5, 2017	5.01	–	1,200,066
June 8, 2016	June 8, 2016 to April 5, 2017	5.20	–	1,522
			2,136,096	2,123,690
Total			3,029,408	3,802,280

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

During the year ended December 31, 2017, share-based compensation expenses of HK\$25 million (2016: HK\$20 million) is recognized in the consolidated income statement and an obligation in liabilities in the consolidated statement of financial position, respectively.

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	2016		2017	
	Number of shares	Nominal value HK\$	Number of shares	Nominal value HK\$
Authorized:				
Ordinary shares of HK\$0.0005 each Beginning and end of year	20,000,000,000	10,000,000	20,000,000,000	10,000,000
Preference shares of HK\$0.0005 each Beginning and end of year	20,000,000,000	10,000,000	20,000,000,000	10,000,000
Issued and fully paid:				
Ordinary shares of HK\$0.0005 each Beginning and end of year	7,571,742,334	3,785,871	7,571,742,334	3,785,871
Preference shares of HK\$0.0005 each Beginning and end of year	7,571,742,334	3,785,871	7,571,742,334	3,785,871

Movements in reserves of the Company during the years ended December 31, 2016 and 2017 are as follows:

In HK\$ million	2016		Total
	Share premium	Retained profits	
At January 1, 2016	35,113	93	35,206
Total comprehensive income for the year	–	4,221	4,221
Dividend paid in respect of the previous year	–	(2,141)	(2,141)
Interim dividend paid in respect of current year	–	(2,051)	(2,051)
At December 31, 2016	35,113	122	35,235
In HK\$ million	2017		Total
	Share premium	Retained profits	
At January 1, 2017	35,113	122	35,235
Total comprehensive income for the year	–	4,806	4,806
Dividend paid in respect of the previous year	–	(2,632)	(2,632)
Interim dividend paid in respect of current year	–	(2,129)	(2,129)
At December 31, 2017	35,113	167	35,280

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30 RESERVES

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

30 RESERVES (CONTINUED)

In HK\$ million	2017									
	Share Premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging reserve	Other reserves	Equity compensation reserve	Treasury stock	Retained profits	Total
At January 1, 2017	7,769	26,250	12	(347)	491	26	36	(47)	4,898	39,088
Comprehensive income/(loss)										
Profit for the year	-	-	-	-	-	-	-	-	5,097	5,097
Other comprehensive income/(loss)										
<i>Items that have been reclassified or may be reclassified subsequently to consolidated income statement:</i>										
Exchange differences on translating foreign operations	-	-	180	-	-	-	-	-	-	180
Cash flow hedges:										
– effective portion of changes in fair value	-	-	-	-	(280)	-	-	-	-	(280)
– transfer to consolidated income statement	-	-	-	-	(332)	-	-	-	-	(332)
Total comprehensive income/(loss) for the year	-	-	180	-	(612)	-	-	-	5,097	4,665
Transactions with equity holders										
<i>Contributions by and distributions to equity holders:</i>										
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes	-	-	-	-	-	-	-	(6)	-	(6)
Employee share-based compensation	-	-	-	-	-	-	25	-	-	25
Vesting of Share Stapled Units under the Share Stapled Units Award Schemes	-	-	-	-	-	-	(37)	43	(6)	-
Distribution/Dividend paid in respect of the previous year	-	-	-	-	-	-	(2)	-	(2,630)	(2,632)
Interim distribution/dividend declared and paid in respect of the current year	-	-	-	-	-	-	-	-	(2,129)	(2,129)
Total transactions with equity holders	-	-	-	-	-	-	(14)	37	(4,765)	(4,742)
At December 31, 2017	7,769	26,250	192	(347)	(121)	26	22	(10)	5,230	39,011

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

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

In HK\$ million	2017			Total
	Accelerated tax depreciation and amortization	Tax losses	Others	
Beginning of year	2,717	(316)	(5)	2,396
Charged/(credited) to the consolidated income statement (<i>note 13(a)</i>)	306	(178)	1	129
Exchange differences	1	(3)	–	(2)
End of year	3,024	(497)	(4)	2,523

In HK\$ million	2016	2017
Deferred income tax assets:		
– to be recovered after more than 12 months	(297)	(433)
– to be recovered within 12 months	(20)	(33)
Deferred income tax assets recognized in the consolidated statement of financial position	(317)	(466)
Deferred income tax liabilities:		
– to be recovered after more than 12 months	2,535	2,829
– to be recovered within 12 months	178	160
Deferred income tax liabilities recognized in the consolidated statement of financial position	2,713	2,989
Deferred income tax liabilities (net)	2,396	2,523

31 DEFERRED INCOME TAX (CONTINUED)

- b. As at December 31, 2017, the Groups had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK\$2,207 million (2016: HK\$3,389 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK\$41 million (2016: HK\$6 million) will expire within 1 to 5 years. Estimated adjusted tax losses of HK\$263 million will expire after 5 years (2016: HK\$168 million). The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

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

32 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2017, the Groups had carrier licence fee liabilities payable as follows:

In HK\$ million	Present value of the minimum annual fees	2016 Interest expense relating to future periods	Total minimum annual fees	Present value of the minimum annual fees	2017 Interest expense relating to future periods	Total minimum annual fees
Payable within a period						
– not exceeding one year	173	7	180	173	7	180
– over one year, but not exceeding two years	123	19	142	123	19	142
– over two years, but not exceeding five years	312	112	424	257	75	332
– over five years	109	41	150	75	25	100
	717	179	896	628	126	754
Less: Amounts payable within one year included under current liabilities	(173)	(7)	(180)	(173)	(7)	(180)
Non-current portion	544	172	716	455	119	574

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33 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS**a. Reconciliation of profit before income tax to net cash generated from operating activities**

In HK\$ million	2016	2017
Profit before income tax	5,698	6,080
Adjustments for:		
Finance costs, net	1,107	1,076
Gain on disposal of an available-for-sale financial asset	–	(6)
Net gain on fair value hedging instruments	(4)	–
Other loss/(gain)	1	(3)
(Gain)/loss on disposal of property, plant and equipment and intangible assets, net	(3)	1
Provision for inventory obsolescence	6	12
Impairment loss for doubtful debts	303	259
Depreciation of property, plant and equipment	1,432	1,381
Amortization of intangible assets	4,364	4,291
Amortization of land lease premium	12	13
Share of results of joint ventures	10	(2)
Share of results of associates	13	12
Provision for impairment on an available-for-sale financial asset	54	–
Provision for impairment on interests in associates	–	154
Share-based compensation expenses	53	50
Increase in PCCW shares and Share Stapled Units for equity compensation scheme	–	(15)
Decrease/(increase) in operating assets		
– inventories	(44)	(54)
– trade receivables, prepayments, deposits and other current assets	(643)	(289)
– restricted cash	(26)	(15)
– amounts due from related companies	–	18
– other non-current assets	20	(82)
(Decrease)/increase in operating liabilities		
– trade payables, accruals and other payables	511	(499)
– other long-term liabilities	(15)	(5)
– advances from customers	60	200
– amounts due to related companies	(51)	(36)
– deferred income (non-current)	(58)	286
Cash generated from operations	12,800	12,827
Interest received	13	26
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(499)	(670)
– Overseas profits tax paid	(52)	(41)
Net cash generated from operating activities	12,262	12,142

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

b. Movement of financial liabilities arising from financing activities

Movements of financial liabilities arising from financing activities for the year ended December 31, 2017 are as follows:

In HK\$ million	2017			Total
	Interest payable (included in accruals and other payables)	Long-term borrowings	Derivative financial instruments, net	
As at January 1, 2017	178	38,193	(263)	38,108
Cash flows in financing activities				
New borrowings raised, net	–	5,275	–	5,275
Finance costs (paid)/received	(877)	–	21	(856)
Repayments of borrowings	–	(4,650)	–	(4,650)
Classified as investing activities (<i>note 35b(i)</i>)	–	(130)	–	(130)
Non-cash movement	886	458	169	1,513
As at December 31, 2017	187	39,146	(73)	39,260

c. Analysis of cash and cash equivalents

In HK\$ million	2016	2017
Total cash and bank balances	3,368	3,718
Less: Short-term deposits	(450)	(450)
Restricted cash	(36)	(51)
Cash and cash equivalents as at December 31,	2,882	3,217

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34 CAPITAL MANAGEMENT

The Groups' primary objectives when managing capital are to safeguard the Groups' ability to continue as a going concern, so that it can continue to provide returns for equity holders of the Groups, to support the Groups' stability and growth; and to earn a margin commensurate with the level of business and market risks in the Groups' operation.

The Groups monitor capital by reviewing the level of capital that is at the disposal of the Groups ("adjusted capital"), taking into consideration the future capital requirements of the Groups, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises all components of equity.

The Groups are not subject to externally imposed capital requirements, except for the minimum capital requirement of a subsidiary regulated by the Bermuda Monetary Authority and a minimum capital requirement as a condition for a stored value facilities licence granted by the Hong Kong Monetary Authority to a subsidiary of the Groups.

35 FINANCIAL INSTRUMENTS

The table below analyses financial instruments by category:

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

35 FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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35 FINANCIAL INSTRUMENTS (CONTINUED)

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

In HK\$ million	Financial assets at amortized cost	Assets at fair value through profit or loss	2017 Available-for-sale financial assets	Derivative used for hedging	Total
Non-current assets					
Available-for-sale financial assets	–	–	77	–	77
Derivative financial instruments*	–	–	–	223	223
Financial assets at fair value through profit or loss	–	20	–	–	20
Other non-current assets	119	–	–	–	119
	119	20	77	223	439
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	5,008	–	–	–	5,008
Trade receivables, net	2,787	–	–	–	2,787
Financial assets at fair value through profit or loss	–	17	–	–	17
Amounts due from related companies	77	–	–	–	77
Restricted cash	51	–	–	–	51
Short-term deposits	450	–	–	–	450
Cash and cash equivalents	3,217	–	–	–	3,217
	11,590	17	–	–	11,607
Total	11,709	37	77	223	12,046

* As at December 31, 2017, derivative financial instruments of HK\$8 million (2016: HK\$37 million) related to the foreign exchange forward contracts with notional contract amounts of US\$376 million (approximately HK\$2,905 million) were designated as cash flow hedge of US\$300 million zero coupon guaranteed notes due 2030. These guaranteed notes may be redeemed at the option of the Groups on January 15, 2020 at an early redemption amount of US\$376 million. Please refer to note 26(b) and note 27(a) for details of the guaranteed notes and the foreign exchange contract respectively.

35 FINANCIAL INSTRUMENTS (CONTINUED)

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

In HK\$ million	Derivatives used for hedging	2017 Other financial liabilities at amortized cost	Total
Current liabilities			
Trade payables	–	1,874	1,874
Accruals and other payables	–	5,165	5,165
Carrier licence fee liabilities	–	173	173
Amounts due to fellow subsidiaries	–	969	969
	–	8,181	8,181
Non-current liabilities			
Long-term borrowings	–	39,146	39,146
Derivative financial instruments	150	–	150
Carrier licence fee liabilities	–	455	455
Other long-term liabilities	–	596	596
	150	40,197	40,347
Total	150	48,378	48,528

Exposures to credit, liquidity and market risks (including foreign currency risk and interest rate risk) arise in the normal course of the Groups' business. The Groups are also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Groups' financial management policies and practices described below.

a. Credit risk

The Groups' credit risk is primarily attributable to trade receivables, amounts due from related companies, interest receivable, foreign exchange and swap contracts and cash transactions entered into for risk and cash management purposes. Management has policies in place and exposure to these credit risks are monitored on an ongoing basis.

Trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Groups maintain a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payables are requested to settle all outstanding balances before any further credit is granted. Normally, the Groups do not obtain collateral from customers. As at December 31, 2016 and 2017, the Groups did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Groups' exposure to credit risk arising from trade receivables are set out in note 25(b).

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, provision for impairment loss is made for estimated irrecoverable amounts. As at December 31, 2016 and 2017, the amounts due from related companies and other receivables were fully performing.

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35 FINANCIAL INSTRUMENTS (CONTINUED)**a. Credit risk (continued)**

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Groups do not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Groups as disclosed in note 37, the Groups do not provide any other guarantees which would expose the Groups to credit risk.

b. Liquidity risk

The Groups' policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Groups have sufficient cash and committed facilities to fund its operations and debt servicing requirements.

The Groups are subject to certain corporate guarantee obligations to guarantee performance of the subsidiaries in the normal course of their businesses. Please refer to note 37 for details.

The following table details the remaining contractual maturities at the end of the reporting periods of the Groups' non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting periods) and the earliest date the Groups can be required to pay:

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

35 FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk (continued)

In HK\$ million	2017				Total contractual undiscounted cash flow	Carrying Amount
	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		
Current liabilities						
Trade payables	(1,874)	–	–	–	(1,874)	(1,874)
Accruals and other payables	(5,165)	–	–	–	(5,165)	(5,165)
Carrier licence fee liabilities	(180)	–	–	–	(180)	(173)
Amounts due to fellow subsidiaries	(969)	–	–	–	(969)	(969)
	(8,188)	–	–	–	(8,188)	(8,181)
Non-current liabilities						
Long-term borrowings (note (i))	(937)	(10,198)	(14,064)	(21,134)	(46,333)	(39,146)
Derivative financial instruments	1	(1)	(5)	(172)	(177)	(150)
Carrier licence fee liabilities	–	(142)	(332)	(100)	(574)	(455)
Other long-term liabilities (note (ii))	(6)	(1)	(25)	(1,046)	(1,078)	(596)
	(942)	(10,342)	(14,426)	(22,452)	(48,162)	(40,347)
Total	(9,130)	(10,342)	(14,426)	(22,452)	(56,350)	(48,528)

(i) As at December 31, 2017, bank borrowings of HK\$1,820 million (2016: HK\$1,950 million) included in long-term borrowings were drawn for financing a 15-year 3G spectrum utilization fee paid upfront by the Groups.

(ii) As at December 31, 2017, other long-term liabilities included HK\$164 million (2016: HK\$102 million) of long-term interest payable, which related to interest drawn under an arrangement with a bank to receive agreed amounts by installments to settle interest payments of a fixed-to-fixed cross currency swap contract with notional contract amount of EUR200 million (approximately HK\$1,665 million) (2016: EUR200 million (approximately HK\$1,665 million)). Please refer to note 26(d) and note 27(a) for details of the guaranteed notes and the fixed-to-fixed cross currency swap contract respectively.

35 FINANCIAL INSTRUMENTS (CONTINUED)**c. Market risk**

Market risk comprises foreign currency, interest rate and equity price exposures deriving from the Groups' operation, investment and funding activities. As a matter of policy, the Groups enter into cross currency swap contracts, interest rate swap contracts, foreign exchange forward contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Groups do not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire high market risk instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the Board, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

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

In the normal course of business, the Groups use the above-mentioned financial instruments to limit the exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

i. Foreign currency risk

The Groups operate internationally and are exposed to foreign exchange risk arising from various currency exposure. Foreign currency risk arises when the Groups' recognized assets and liabilities are denominated in a currency that is not the functional currency of the relevant group entity.

The Groups' borrowings are denominated in either Hong Kong dollars, United States dollars or Euro. As at December 31, 2017, all of the Groups' borrowings denominated in United States dollars/Euro were swapped into Hong Kong dollars by cross currency swap and foreign exchange forward contracts. Given this, management does not expect that there will be any significant foreign currency risk associated with the Groups' borrowings. The cross currency swap and foreign exchange forward contracts outstanding as at December 31, 2017 with an aggregate notional contract amount of US\$2,126 million (approximately HK\$16,478 million) (2016: US\$2,126 million (approximately HK\$16,478 million)) and EUR200 million (approximately HK\$1,665 million) (2016: EUR200 million (approximately HK\$1,665 million)) were designated or re-designated as cash flow hedges against foreign currency risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Groups ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary to address short-term imbalances.

35 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

i. Foreign currency risk (continued)

The following table details the Groups' exposure as at the end of the reporting period to currency risk arising from significant monetary assets or liabilities denominated in foreign currencies.

In HK\$ million	2016			2017		
	United States Dollars	Euro	Renminbi	United States Dollars	Euro	Renminbi
Trade receivables	1,033	168	165	1,501	227	105
Amounts due from related companies	–	–	7	–	–	10
Cash and cash equivalents	1,061	51	68	616	130	101
Trade payables	(1,680)	(153)	(36)	(1,288)	(115)	(55)
Amounts due to related companies	(33)	–	–	–	–	–
Long-term borrowings	(15,651)	(1,613)	–	(15,802)	(1,830)	–
Gross exposure arising from monetary (liabilities)/assets	(15,270)	(1,547)	204	(14,973)	(1,588)	161
Net monetary assets denominated in respective entities' functional currencies	(111)	(78)	(215)	(160)	(78)	(168)
Borrowings with hedging instruments	15,651	1,613	–	15,802	1,830	–
Overall net exposure	270	(12)	(11)	669	164	(7)

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35 FINANCIAL INSTRUMENTS (CONTINUED)**c. Market risk (continued)****i. Foreign currency risk (continued)**

As at December 31, 2017, if the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the profit after tax of the Groups would have increased/decreased by approximately HK\$6 million (2016: 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 as at December 31, 2017 would have decreased/increased by approximately HK\$158 million (2016: HK\$157 million) mainly as a result of foreign exchange losses/gains on long-term borrowings being hedged by cross currency swap contracts and foreign exchange forward contracts.

As at December 31, 2017, if the Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, there would be no material impact on the Groups' profit after tax (2016: no material impact).

As at December 31, 2017, if the Hong Kong dollar had weakened/strengthened by 5% against the Euro, with all other variables held constant, the profit after tax of the Groups would have increased/decreased by approximately HK\$7 million (2016: decreased/increased by approximately HK\$1 million), mainly as a result of foreign exchange gains/losses (2016: losses/gains) on translation of Euro denominated monetary assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2017 would have decreased/increased by approximately HK\$92 million (2016: HK\$81 million) mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by a cross currency swap contract.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred as at the end of the reporting periods and had been applied to the Groups' exposure to currency risk for monetary assets and liabilities in existence at 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 periods until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2016 and 2017.

35 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

ii. Interest rate risk

As the Groups have no significant interest-bearing assets, the Groups' income and operating cash flows are substantially independent of changes in market interest rates.

The Groups' interest rate risk arises primarily from long-term borrowings. Borrowings at variable rates and fixed rates expose the Groups to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Groups draw under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pay interest at floating rate.

The Groups had fixed-to-floating cross currency swap contracts to manage the fair value interest rate risk arising from certain fixed rate long-term borrowings. The Groups further entered into floating-to-fixed swap contracts, therefore the Groups had a synthetic fixed-to-fixed cross currency swap position and re-designated it as cash flow hedging instrument accordingly.

The Groups also entered into a floating-to-fixed interest rate swap contract; which was designated as cash flow hedge, to hedge the interest rate risk arising from the Groups' certain floating rate borrowings.

The following table details the interest rate profile of the Groups' borrowings as at the end of the reporting periods, after taking into account the effect of cross currency swap contracts and interest rate swap contracts designated as cash flow hedging instruments.

	2016		2017	
	Effective interest rate %	HK\$ million	Effective interest rate %	HK\$ million
Net fixed rate borrowings:				
Long-term bank borrowings with hedging instruments	1.84	1,484	1.84	1,488
Long-term borrowings with hedging instruments	3.51	17,264	3.72	17,632
Variable rate borrowings:				
Long-term bank borrowings	1.46	19,445	1.63	20,026
Total borrowings		38,193		39,146

As at December 31, 2017, if interest rates on variable rate borrowings had increased/decreased by 50 basis points (2016: 50 basis points) with all other variables held constant, the Groups' profit after tax would have decreased/increased by approximately HK\$67 million (2016: HK\$60 million) mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred as at the end of the reporting periods and had been applied to the exposure to interest rate risk for the Groups' floating rate borrowings in existence at those dates. The 50 basis points (2016: 50 basis points) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the periods until the end of the next annual reporting period. The analysis was performed on the same methodology for 2016 and 2017.

December 31, 2017

35 FINANCIAL INSTRUMENTS (CONTINUED)**c. Market risk (continued)****iii. Equity price risk**

The Groups are exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (note 22) and financial assets at fair value through profit or loss (note 23). Other than unquoted equity securities held for strategic purpose, other investments are listed on recognized stock exchange markets.

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

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

d. Fair values of financial liabilities measured at amortized cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2016 and 2017 except as follows:

In HK\$ million	2016		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	38,193	37,876	39,146	39,271

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

e. Estimation of fair values

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for asset or liability that are not based on observable market data (level 3).

35 FINANCIAL INSTRUMENTS (CONTINUED)

e. Estimation of fair values (continued)

The following table presents the Groups' financial assets and liabilities that are measured at fair value:

In HK\$ million	2016			Total
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale financial assets				
– Unlisted equity securities	–	–	77	77
Derivative financial instruments	–	277	–	277
Financial assets at fair value through profit or loss	44	–	–	44
Total assets	44	277	77	398
Liabilities				
Derivative financial instruments	–	(14)	–	(14)
In HK\$ million	2017			Total
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale financial assets				
– Unlisted equity securities	–	–	77	77
Derivative financial instruments	–	223	–	223
Financial assets at fair value through profit or loss	37	–	–	37
Total assets	37	223	77	337
Liabilities				
Derivative financial instruments	–	(150)	–	(150)

The fair value of financial instruments traded in active markets is based on quoted market prices as at the end of the reporting periods. The quoted market price used for financial assets held by the Groups included in level 1 is the current bid price.

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. During the year, there was no movement for the unlisted available-for-sale financial instrument of the Groups. As at December 31, 2017, the balance amounted to HK\$77 million (2016: HK\$77 million) was included in the level 3 category.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2016 and 2017.

f. Groups' valuation process

The Groups perform and monitor valuations of financial assets required for financial reporting purposes, including level 3 fair value. Material movements in valuations are reported to senior management immediately. Valuation results are reviewed by senior management at least on a semi-annual basis.

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

December 31, 2017

36 COMMITMENTS**a. Capital**

In HK\$ million	2016	2017
Authorized and contracted for acquisition of property, plant and equipment	645	823

b. Operating leases

As at December 31, 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK\$ million	2016	2017
Within 1 year	1,066	973
After 1 year but within 5 years	625	1,112
After 5 years	2	451
	1,693	2,536

Majority of the leases typically run for a period of 1 to 9 years as at December 31, 2017 (2016: 1 to 9 years). None of the leases include material contingent rentals.

Network capacity and equipment

In HK\$ million	2016	2017
Within 1 year	937	913
After 1 year but within 5 years	844	821
After 5 years	299	235
	2,080	1,969

Majority of the leases typically run for a period of 1 to 15 years as at December 31, 2017 (2016: 1 to 15 years). None of the leases include material contingent rentals.

36 COMMITMENTS (CONTINUED)

c. Others

As at December 31, 2017, the Groups have other outstanding commitments as follows:

In HK\$ million	2016	2017
Operating expenditure commitment	214	214
	214	214

37 CONTINGENT LIABILITIES

In HK\$ million	2016	2017
Performance guarantees	513	237
Guarantees given to banks in respect of credit facilities granted to an associate	56	60
Others	1	4
	570	301

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

December 31, 2017

38 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2017 was HK\$27,381 million (2016: HK\$27,181 million) of which the unused facilities amounted to HK\$5,698 million (2016: HK\$6,038 million).

All of the Groups' banking facilities are subject to the fulfillment of covenants relating to certain of the Groups' consolidated statement of financial position ratios, as are commonly found in lending arrangement with financial institutions. If the Groups were to breach the covenants, the drawn down facilities would become payable on demand. The Groups regularly monitor their compliance with these covenants. As at December 31, 2017, none of the covenants relating to drawn down facilities was breached. Further details of the Groups' management of liquidity risk are set out in note 35(b).

Summaries of long-term borrowings are set out in note 26.

39 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2017

Up to the date of approval of these financial statements, the HKICPA has issued the following new and amended standards and interpretations which are not yet effective for the accounting period ended December 31, 2017 and which have not been early adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 40 (Amendment)	Investment Property	January 1, 2018
HKFRS 2 (Amendment)	Share-based Payment	January 1, 2018
HKFRS 4 (Amendment)	Insurance Contracts	January 1, 2018
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
HKFRS 15	Revenue from Contracts with Customers	January 1, 2018
HKFRS 16	Leases	January 1, 2019
HKFRS 17	Insurance Contracts	January 1, 2021
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	January 1, 2019
Annual Improvements to HKFRSs 2014-2016 Cycle		January 1, 2018

Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2017 and have not been early adopted in these financial statements.

39 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2017 (CONTINUED)

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

HKFRS 15, “Revenue from Contracts with Customers”

HKFRS 15 will replace HKAS 18 which deals with contracts for goods and services, HKAS 11 which deals with construction contracts and related literature. HKFRS 15 is based on the principle that revenue is recognized when control of a good or service transfers to a customer. HKFRS 15 permits adoption using either the full retrospective approach or a modified retrospective approach. The Groups intend to use the full retrospective approach when it adopts HKFRS 15 effective January 1, 2018.

While the Groups are continuing to assess the effect of applying HKFRS 15 on the Groups’ consolidated financial statements, the Groups have identified a number of current revenue recognition policies and disclosures that will be impacted by HKFRS 15. The most significant areas are discussed below. The Groups have not yet completed the quantitative assessment of the impact of HKFRS 15.

HKFRS 15 will require the identification of deliverables in contracts with customers that qualify as separate “performance obligations”. The performance obligations identified will depend on the nature of individual customer contracts. These are expected to include mobile handsets, telecommunications and other equipment, gifts provided free of charge and telecommunications services provided to customers.

Where customer contracts contain more than one performance obligation, the transaction price receivable from customers must be allocated between the Groups’ performance obligations on a relative standalone selling price basis. The primary impact on revenue reporting will be that when the Groups sell telecommunications or other equipment or subsidized mobile handsets together with gifts and telecommunications service agreements to customers, revenue allocated to the equipment, handsets and gifts, which are recognized at contract inception when control typically passes to the customer, will be recorded at their relative standalone fair value and not using the current residual value method as set out in Note 3(u)(i). Nevertheless, it is expected that there will be no material impact on the total revenue to be recognized by the Groups in the consolidated income statement over the respective contract periods.

Currently, the Groups capitalize subsidized handsets and gifts as customer acquisition costs and amortize these amounts on a straight-line basis over the minimum enforceable contractual periods. Under HKFRS 15, the costs of subsidized handsets and gifts are required to be recognized as costs of goods sold immediately when the corresponding revenue is recognized, rather than the existing treatment of being charged to the consolidated income statement through amortization of customer acquisition costs. The total net profit recognized by the Groups over the full contract period is not expected to be materially affected.

The adoption of HKFRS 15 will not have any material impact on the Groups’ consolidated statement of cash flows and the calculation of Adjusted Funds Flow pursuant to the Trust Deed.

39 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2017 (CONTINUED)**HKFRS 9, “Financial instruments”**

HKFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. Furthermore, under the new HKFRS 9, there is a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. Measurement of impairment loss on trade receivable based on an expected credit losses model requires the use of historical data as well as forward looking information. HKFRS 9 also relaxes the requirements for hedge effectiveness but contemporaneous documentation is still required. Management is in the process of assessing the impact of HKFRS 9. It is not practicable to provide a reasonable estimate of the effect until the Groups complete this detail review. The adoption of HKFRS 9 is also expected to require more disclosures on the Groups’ consolidated financial statements.

HKFRS 16, “Leases”

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

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

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2017

Results

In HK\$ million	2013	2014	2015	2016	2017
Revenue by Principal Activity					
Telecommunications Services	18,773	19,309	20,205	20,547	20,991
Mobile	3,371	8,950	14,317	13,063	12,018
Other businesses	688	564	207	237	249
	22,832	28,823	34,729	33,847	33,258
Cost of sales	(10,117)	(12,053)	(15,539)	(14,445)	(14,161)
General and administrative expenses	(9,501)	(12,416)	(13,287)	(12,523)	(11,786)
Other gains/(losses), net	84	151	18	(51)	(145)
Finance costs, net	(833)	(1,124)	(1,310)	(1,107)	(1,076)
Share of results of equity accounted entities	50	(81)	(25)	(23)	(10)
Profit before income tax	2,515	3,300	4,586	5,698	6,080
Income tax	(16)	(242)	(600)	(771)	(971)
Profit for the year	2,499	3,058	3,986	4,927	5,109
Attributable to:					
Holders of Share Stapled Units/shares of the Company	2,460	2,991	3,949	4,889	5,097
Non-controlling interests	39	67	37	38	12

Assets and Liabilities

As at December 31 In HK\$ million	2013	2014	2015	2016	2017
Total non-current assets	56,348	77,542	77,570	80,921	82,533
Total current assets	9,471	12,258	12,347	12,445	12,832
Total current liabilities	(7,157)	(14,415)	(14,778)	(11,302)	(11,663)
Total non-current liabilities	(27,857)	(37,346)	(37,404)	(42,905)	(44,643)
Net assets	30,805	38,039	37,735	39,159	39,059

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

TO THE SOLE SHAREHOLDER OF HKT MANAGEMENT LIMITED

(Incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of HKT Management Limited (the "Company") set out on pages 186 to 194, which comprise:

- the statement of financial position as at December 31, 2017;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of principal accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Other Information

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

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

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

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

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

Responsibilities of Directors and the Audit Committee for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 6, 2018

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

INCOME STATEMENT OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2017

In HK\$'000	Note	2016	2017
Management fee income		48	54
General and administrative expenses		(48)	(54)
Profit before income tax	5	–	–
Income tax	6	–	–
Profit for the year		–	–

The notes on pages 191 to 194 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2017

In HK\$'000	2016	2017
Profit for the year	–	–
Other comprehensive income	–	–
Total comprehensive income for the year	–	–

The notes on pages 191 to 194 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF HKT MANAGEMENT LIMITED

As at December 31, 2017

In HK\$'000	Note	2016	2017
ASSETS AND LIABILITIES			
Current assets			
Amount due from a fellow subsidiary	4(c)	222	276
		222	276
Current liabilities			
Accruals and other payables		129	131
Amount due to a fellow subsidiary	4(c)	93	145
		222	276
Net assets		–	–
CAPITAL AND RESERVES			
Share capital	7	–	–
Reserves		–	–
Total equity		–	–

Approved and authorized for issue by the board of directors (the “Board”) on February 6, 2018 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 191 to 194 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2017

In HK\$'000	2016		
	Share capital	Retained Profit	Total
As at January 1, 2016	–	–	–
Comprehensive income			
Profit for the year	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	–	–
Transactions with the equity holder of the Company	–	–	–
As at December 31, 2016	–	–	–
In HK\$'000	2017		
	Share capital	Retained Profit	Total
As at January 1, 2017	–	–	–
Comprehensive income			
Profit for the year	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	–	–
Transactions with the equity holder of the Company	–	–	–
As at December 31, 2017	–	–	–

The notes on pages 191 to 194 form part of these financial statements.

STATEMENT OF CASH FLOWS OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2017

In HK\$'000	2016	2017
Operating activities		
Profit before income tax	–	–
Adjustments for:		
Increase in amount due from a fellow subsidiary	(48)	(54)
Increase in accruals and other payables	2	2
Increase in amount due to a fellow subsidiary	46	52
Net cash generated from operating activities	–	–
Investing activities		
Net cash generated from investing activities	–	–
Financing activities		
Net cash generated from financing activities	–	–
Net change in cash and cash equivalents	–	–
Cash and cash equivalents		
Beginning of year	–	–
End of year	–	–

The notes on pages 191 to 194 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF HKT MANAGEMENT LIMITED

December 31, 2017

1 GENERAL INFORMATION

HKT Management Limited (the “Company”) was incorporated in Hong Kong under the Companies Ordinance on June 14, 2011. Its registered office is located at 39th Floor, PCCW Tower, Taikoo Place, 979 King’s Road, Quarry Bay, Hong Kong. The Company is an indirect wholly-owned subsidiary of PCCW Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited.

The Company has a limited and specific role, which is to administer the HKT Trust.

The financial statements are presented in thousands units of Hong Kong dollars (HK\$’000), unless otherwise stated.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation of the financial statements

The Company has not adopted any new and amended Hong Kong Financial Reporting Standards that are not yet effective for the current accounting period, details of which are set out in note 10.

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

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

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

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

c. Impairment of 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 value may not be recoverable, to identify indications that the following assets may be impaired or, an impairment loss previously recognized no longer exists or may have decreased:

- intercompany receivables

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

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

d. Related parties

For the purposes of these financial statements, a party is considered to be related to the Company if:

- i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company;
- ii. the Company and the party are subject to common control;
- iii. the party is an associate of the Company or a joint venture in which the Company is a venturer;
- iv. the party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;
- v. the party is a close family member of a party referred to in (i) above or is an entity under the control, joint control or significant influence of such party;
- vi. the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company; or
- vii. the entity provides key management personnel services to the Company.

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company has no accounting estimates and judgements that would significantly affect its results and financial position.

4 RELATED PARTY TRANSACTIONS

During the year, the Company had the following significant transaction with a related party:

In HK\$'000	2016	2017
Management fee receivable from a fellow subsidiary	48	54

- This transaction was carried out after negotiations between the Company and the related party in the ordinary course of business and on the basis of estimated market value as determined by the directors.
- The directors' emoluments of the Company were borne by a fellow subsidiary of the Company for the years ended December 31, 2016 and 2017.
- The amounts due from/to a fellow subsidiary are unsecured, non-interest bearing and have no fixed repayment terms.

5 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging the following:

In HK\$'000	2016	2017
Charging: Auditor's remuneration	48	52

6 INCOME TAX

No Hong Kong profits tax has been provided as the Company does not have any assessable profit during the years ended December 31, 2016 and 2017.

No deferred income tax asset and liability was recognized as at December 31, 2016 and 2017.

7 SHARE CAPITAL

	2016		2017	
	Number of share	Value HK\$	Number of share	Value HK\$
Issued and fully paid: Ordinary share				
Beginning and end of year	1	1	1	1

8 CAPITAL MANAGEMENT

The Company has a specific and limited role to administer the HKT Trust. It is not actively engaged in running the telecommunications business which is managed by HKT Limited, a fellow subsidiary of the Company, and the operating subsidiaries of HKT Limited. Therefore, the Company is not subject to externally imposed capital requirements.

9 FINANCIAL INSTRUMENTS

As the principal activity of the Company is to administer the HKT Trust, the Company is not exposed to credit, liquidity and market risk (including foreign currency risk and interest rate risk). Risk management is carried out under policies approved by the board of directors.

December 31, 2017

10 POSSIBLE IMPACT OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2017

Up to the date of approval of these financial statements, the HKICPA has issued the following new and amended standards and interpretations which are not yet effective for the accounting period ended December 31, 2017 and which have not been early adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 40 (Amendment)	Investment Property	January 1, 2018
HKFRS 2 (Amendment)	Share-based Payment	January 1, 2018
HKFRS 4 (Amendment)	Insurance Contracts	January 1, 2018
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
HKFRS 15	Revenue from Contracts with Customers	January 1, 2018
HKFRS 16	Leases	January 1, 2019
HKFRS 17	Insurance Contracts	January 1, 2021
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	January 1, 2019
Annual Improvements to HKFRSs 2014-2016 Cycle		January 1, 2018

Apart from the above, a number of improvements and minor amendments to Hong Kong Financial Reporting Standards have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2017 and have not been early adopted in these financial statements.

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

CORPORATE INFORMATION

HKT LIMITED

(incorporated in the Cayman Islands with limited liability)

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

GROUP GENERAL COUNSEL AND COMPANY SECRETARY OF HKT LIMITED AND HKT MANAGEMENT LIMITED

Bernadette M. Lomas

REGISTERED OFFICE

PO Box 309, Uglan House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

39th Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

SHARE STAPLED UNITS INFORMATION

Board lot: 1,000 units
Issued units as at December 31, 2017: 7,571,742,334 units

DISTRIBUTION

Distribution per share stapled unit for the year ended December 31, 2017:
Interim 28.12 HK cents
Final 36.75 HK cents*

* Subject to the approval of holders of share stapled units at the 2018 Annual General Meeting

FINANCIAL CALENDAR

Announcement of 2017 Annual Results	February 6, 2018
Closure of books	May 16 – 17, 2018 (both days inclusive)
Record date for 2017 final distribution	May 17, 2018
Payment of 2017 final distribution	on or around May 31, 2018
2018 Annual General Meeting	May 10, 2018

HKT MANAGEMENT LIMITED

(incorporated in Hong Kong with limited liability)
(THE TRUSTEE-MANAGER OF THE HKT TRUST)

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

REGISTERED OFFICE

39th Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

SHARE STAPLED UNITS REGISTRAR AND HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

LISTING

The share stapled units of the HKT Trust and HKT Limited are listed on The Stock Exchange of Hong Kong Limited. Certain guaranteed notes issued by subsidiaries of HKT Limited are listed on the Singapore Exchange Securities Trading Limited and the Taipei Exchange in Taiwan, China.

STOCK CODES

The Stock Exchange of Hong Kong Limited 6823
Reuters 6823.HK
Bloomberg 6823 HK

WEBSITE OF HKT LIMITED

www.hkt.com

INVESTOR RELATIONS

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

ANNUAL REPORT 2017

This Annual Report 2017 in both English and Chinese is now available in printed form from HKT Limited, HKT Management Limited and the Share Stapled Units Registrar, and in accessible format on the websites of HKT Limited (www.hkt.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Holders of share stapled units who:

- A) received the Annual Report 2017 using electronic means through the website of HKT Limited may request a printed copy, or
- B) received the Annual Report 2017 in either English or Chinese may request a printed copy of the other language version

by writing or sending email to HKT Limited and/or
HKT Management Limited c/o the Share Stapled Units Registrar at:

Computershare Hong Kong Investor Services Limited
Investor Communications Centre
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8688
Fax: +852 2865 0990
Email: hkt@computershare.com.hk

Holders of share stapled units who have chosen (or are deemed to have agreed) to receive the corporate communications of the HKT Trust, HKT Limited and HKT Management Limited (including but not limited to the Annual Report 2017) using electronic means through the website of HKT Limited and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2017 will promptly, upon request in writing or by email to the Share Stapled Units Registrar, be sent the Annual Report 2017 in printed form, free of charge.

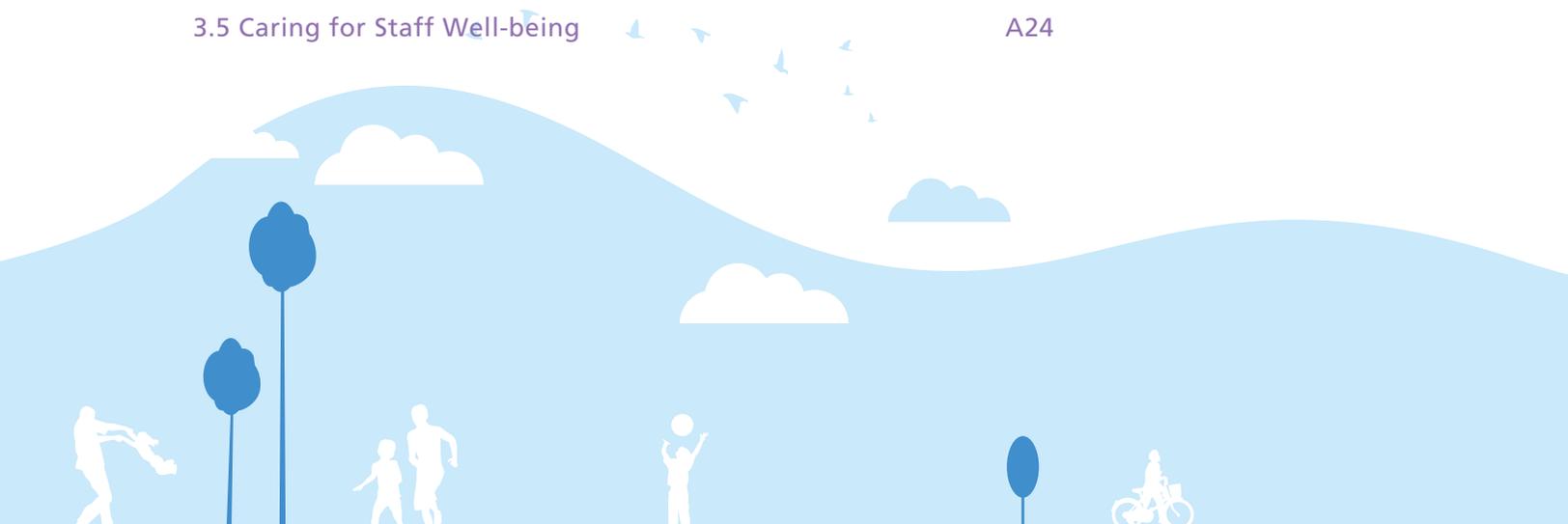
Holders of share stapled units may change their choice of language and/or means of receipt of future corporate communications of the HKT Trust, HKT Limited and HKT Management Limited at any time, free of charge, by reasonable prior notice in writing or by email to the Share Stapled Units Registrar.

Appendix
**ENVIRONMENTAL, SOCIAL
AND GOVERNANCE REPORT**



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GROUP MANAGING DIRECTOR'S MESSAGE

I am pleased to present HKT's second Environmental, Social and Governance (ESG) Report.

In addition to meeting customer needs, we believe we need to create meaningful, positive change in the communities in which we operate. Whether it is offering IT experience opportunities for youth, connecting elderly people with technologies, or providing ICT support to social service groups, we believe that leveraging our specific expertise and resources is the most effective way to give back to the community. Our corporate volunteers selflessly contribute their time and energy to serve those in need, and together contributed over 20,000 hours of service in 2017.

On the environmental front, we will continue to improve the energy efficiency of our facilities and innovate green ICT solutions to help our customers lead more environmentally friendly lives. We were honored to receive the Gold Award – Media and Communications Sector at the Hong Kong Awards for Environmental Excellence (HKAAEE) 2016.

None of this would be possible without the dedication of our HKT employees, who ensure that we remain competitive and enable us to deliver the best services. We endeavor to position ourselves as an Employer of Choice by attracting and retaining talented individuals and sustaining a diverse and vibrant team.

As we move forward, we will continue to embrace innovation and new technology to build a sustainable business, enhance quality of life for our customers, and contribute even more to the communities we serve. In the many areas highlighted throughout this report, HKT is taking concrete steps to make the future better. I look forward to working together with our customers, our communities and other stakeholders to further improve our ESG efforts in 2018 and beyond.

Alex Arena

Group Managing Director

ABOUT THIS REPORT

This is the second Environmental, Social and Governance (“ESG”) report of HKT Trust and HKT Limited (“HKT”), HKT Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group” in this report). The report complies with the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (HKEX ESG Reporting Guide).

HKT (SEHK: 6823) is Hong Kong’s premier provider of telecommunications and leading operator in fixed-line, broadband and mobile communication services. The Company provides individuals and businesses with a wide range of services including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centers.

This report has been reviewed and approved by HKT’s Board of Directors (the “Board”).

Report Scope

Unless otherwise stated, data and information in this report covers HKT’s core businesses and operations in Hong Kong. Where relevant, references are also made to the activities of subsidiaries and outsourced operations.

The report describes HKT’s approach, initiatives and priorities in managing material ESG areas for the financial year ended December 31, 2017. A list of HKT’s material areas is set out in the Corporate Social Responsibility at HKT section of this report. Disclosure on corporate governance is provided in the Combined Corporate Governance Report of the HKT Annual Report 2017.

HIGHLIGHTS



EMISSIONS

- ◆ **98%** of broadband customers, **97%** of mobile customers, and nearly **34%** of fixed-line customers receive e-billing. In 2017, around **13** million e-bills were generated saving nearly **39** million sheets of paper.
- ◆ Gradually upgrade **60** more vehicles in the coming four years.

RECYCLING/ USE OF RESOURCES

- ◆ Collected **12,806** handsets for donation or responsible disposal.
- ◆ Recycled **1,983** printer ink cartridges.
- ◆ **26.44** tonnes of copper, iron and steel were recycled.



HEALTHY AND SAFE WORKPLACE

- ◆ Launched Group Safety Charter to enhance safety standard and culture.

STAFF DEVELOPMENT

- ◆ **1,838** learning and development programs and seminars.
- ◆ **15.6** training hours per staff in 2017.



SUPPLY CHAIN

- ◆ Conducted **100** visits to assess suppliers' performance.
- ◆ Compliance with **ISO 9001:2008** Quality Management System.



RESPONSIBLE NETWORK MANAGEMENT

- ◆ **100%** mobile reliability and **99.99%** broadband network stability in 2017.
- ◆ Fiber-To-The-Building coverage reaches **88.3%**, with **85.6%** Fiber-To-The-Home coverage.

CUSTOMER SATISFACTION

- ◆ Received **36,408** customer compliments in 2017.



DATA PRIVACY AND SECURITY

- ◆ **ISO 27001** certified IT Security Management Systems.

COMMUNITY INVESTMENT

- ◆ **26** ongoing and **17** special programs with NGOs, charities, etc.
- ◆ **21,131** volunteer service hours in 2017.



1. CORPORATE SOCIAL RESPONSIBILITY AT HKT

As Hong Kong's leading telecommunications service provider, corporate social responsibility (CSR) is an integral part of our business strategy. We seek to operate in an economically, socially and environmentally ethical way while balancing the interests of our internal and external stakeholders, and supporting and connecting the communities we serve. Meeting this commitment is not only an important management objective, but also the individual and collective responsibility of all HKT employees.

1.1 CSR Governance Structure

HKT's Board of Directors provides strategic oversight for CSR at HKT. The CSR Committee, chaired by the Head of Group Communications and comprised of the Group Functional Unit Heads, is responsible for formulating and reviewing HKT's CSR policies, and monitoring the effectiveness of our environmental and social initiatives. The CSR Committee meets regularly, and reports to the Finance and Management Committee. The CSR Team communicates and works with Departmental CSR Representatives to promote and implement CSR initiatives across the Group.

Each of the following entities plays a significant role in managing our CSR efforts:

Board of Directors	<ul style="list-style-type: none"> Monitors corporate governance practices and procedures, and maintains appropriate and effective risk management and internal control systems of the Group to ensure compliance with applicable rules and regulations Approves CSR Policy and Corporate Responsibility (CR) Policy
Executive Committee	<ul style="list-style-type: none"> Operates as a general management committee with overall delegated authority from the Board
Finance and Management Committee	<ul style="list-style-type: none"> Reviews management and strategic matters across the Group and sets overall financial objectives and policies
Audit Committee	<ul style="list-style-type: none"> Assists the Board with ensuring the objectivity and credibility of financial reporting, and that the directors have exercised care, diligence and skills prescribed by law when presenting results to unitholders Assists the Board with ensuring that effective risk management and internal control systems are in place and good corporate governance standards and practices are maintained
Risk Management, Controls and Compliance Committee	<ul style="list-style-type: none"> Reviews procedures for preparation of HKT annual and interim reports and, from time to time, corporate policies of the Group to ensure compliance with the various rules and obligations of a Hong Kong-listed company, and assists directors in the review of the effectiveness of the risk management and internal control systems of the Group on an ongoing basis
CSR Committee	<ul style="list-style-type: none"> Reviews the Company's CSR strategy, principles and policies to ensure the Company operates in a manner that enhances its positive contribution to society and the environment Sets guidance and direction of and oversees CSR practices and procedures Monitors progress on CSR and related activities
CSR Team	<ul style="list-style-type: none"> Promotes CSR internally and externally Organizes and implements CSR initiatives
Departments and Business Units	<ul style="list-style-type: none"> Implement CSR practices and ensure CSR compliance in daily operations

Departmental CSR Representatives*	<ul style="list-style-type: none"> • Serve as a bridge between the CSR Team and the department/unit • Facilitate implementation of CSR initiatives proposed by the CSR Team • Raise CSR awareness of colleagues • Assist the CSR Team with preparation of ESG reports and responding to ESG-related surveys
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* In 2017, a total of 20 Departmental CSR Representatives were appointed from across various departments and units to enhance internal communication and effectiveness of CSR-related matters.

1.2 Our Policies

HKT has a CSR Policy and a CR Policy that all members of the Group must adhere to. These policies govern our actions and decisions to consider our economic, environmental and social implications, in addition to ensuring that we fully comply with relevant laws and regulations.

Our CSR Policy states HKT’s CSR Vision and Mission, and describes how the Group interacts with its stakeholders and society at large, and how we address environmental issues to meet and exceed minimum legal requirements. It ensures that HKT and its subsidiaries, affiliates, and associated companies, in Hong Kong and internationally consistently operate in a responsible manner.

In 2017, we reviewed and updated our CSR Policy by referencing the ISO 26000 Guidance on Social Responsibility. Our updated CSR Policy is structured based on the core subjects under ISO 26000, which outline six key areas of social responsibility:



The revised CSR Policy, which has been endorsed by the Board of Directors, also identifies certain focus areas. They are:

- Community – equipping students and youth with skills and resources to excel in the digital age, while also connecting elderly members of the community with technologies that promote active and smart aging;
- Environment – incorporating environmentally friendly considerations into sustainable business operations (such as recycling of copper and other scrap materials and proper disposal of used mobile phones) and transforming customer lifestyles; and
- People – positioning ourselves as an Employer of Choice with a view to attracting and retaining talented individuals to sustain a diverse and vibrant workforce.

Furthermore, the revised Policy provides additional details of our CSR management approach, as well as our commitments with respect to customers and marketplace and supply chain management. We have also included references to other relevant HKT policies, guidelines, and procedures in the new Policy document.

The CSR Policy applies to all directors, officers and employees of the Group. Our vendors, contractors, subcontractors and business partners are encouraged to adopt our CSR Policy as best practice guidance for their own operations.

Our CR Policy, which has been approved by the Board, covers HKT's expectations of all employees and business partners regarding compliance with relevant laws and regulations, integrity and ethical conduct. The CR Policy provides guidance on employee conduct in areas such as:

- Compliance with laws, regulations and HKT Group policies
- Civic behavior and responsibility
- Maintaining a safe and respectful workplace, including equal opportunities as well as health and safety
- Fair business dealings and avoidance of conflicts of interest
- Do not misuse inside information
- Communications safeguards, including the quality of public disclosures
- Property and records management
- Privacy and information protection
- Avoidance of bribery
- Avoidance of gifts and entertainment
- Whistle-blowing

The provisions of our CR Policy include those that establish our zero-tolerance of bribery and corruption in any form. Our Bribery, Gifts and Entertainment Policy prescribes the minimum standards to be adopted throughout our Group to prevent, identify and address any instances of alleged or actual bribery or corruption.

Our whistle-blowing policy and procedures are available on our intranet and corporate website to enable employees and other parties to confidentially and anonymously report unethical activities. Employees have the right to submit anonymous complaints to the Director of Internal Audit or the corresponding Audit Committee Representative either in writing or by telephone via a confidential telephone hotline and voicemail facility that does not log or display the caller's number. All whistle-blowing reports are thoroughly investigated and reported to the Audit Committee.

Employees who have concerns about a potential conflict of interest are encouraged to seek clarification from their line manager. A Declaration of Conflict of Interest form, which is available on the Company's intranet, should be completed in all cases that present a potential conflict.

Any individual who violates HKT policies and/or applicable laws and regulations may be subject to disciplinary and/or administrative action as well as civil and/or criminal liability. Where an instance of non-compliance by an employee is confirmed, their employment may be terminated and/or further actions may be taken. In 2017, no legal cases concerned with corrupt practices were brought against HKT or any of our subsidiaries or employees.

All employees have a duty to uphold the standards established in our CR Policy. Upon recruitment and during annual performance reviews, employees of the Company and its subsidiary companies are required to agree to comply with our CR Policy by signing a compliance declaration.

In light of the changing business and regulatory environments, we regularly review our CSR and CR policies to ensure they remain applicable to our operations and in compliance with current laws and regulations. Our Risk Management, Controls and Compliance Committee regularly reviews the design, implementation and monitoring of the risk management and internal control systems for the Group. For more details, please refer to HKT Annual Report 2017.

1.3 Stakeholder Engagement and Materiality

We value the opinions of our internal and external stakeholders on ESG-related matters. In 2016, we conducted a comprehensive materiality assessment exercise that included focus groups, interviews and surveys. This exercise identified 22 material areas for HKT to manage and report on.

In 2017, we engaged with external stakeholders – including representatives from suppliers, business partners, academic institutions and non-governmental organizations (NGOs) – through two focus groups to gather feedback on our ESG Report 2016 and help review and validate our material areas.

HKT's material areas remain unchanged from those identified in 2016. This report has been structured around the material areas, which are discussed in greater detail in Sections 2 to 6.



Material areas



- Corporate governance¹



- Anti-corruption¹



- Community investment
- Employee engagement in community
- Technology and education initiatives



- Talent attraction and retention
- Employee well-being and working conditions
- Learning and development
- Occupational health and safety
- Human rights



- Customer data privacy and security
- Responsible advertising
- Reliable services and products
- Responsible network management
- Customer service and satisfaction



- Supply chain and procurement



- Energy
- Carbon emissions
- Waste management
- Computers and commodities (e-waste)
- Green ICT solutions
- Employee environmental awareness

1.4 External Recognition

We received the Certificate of Excellence of Hong Kong Sustainability Award 2016/17 from the Hong Kong Management Association.

¹ For details on corporate governance and anti-corruption, please refer to the earlier section and HKT Annual Report 2017.

2. OUR COMMUNITY

In this digital age, improved access to communication technologies can create enormous value for the underprivileged. Our commitment to community investment is embedded in the Group's CSR Policy. We focus on leveraging our resources and core competencies to drive positive change for people and the communities in which we operate.

OBJECTIVES

- Support vulnerable and underprivileged groups
- Enhance ICT and digital literacy
- Use technology to serve society

MEASURES

- Corporate Volunteer Team participates in community service projects
- Develop and support technology literacy initiatives and campaigns
- Develop technological solutions to enhance quality of life

In 2017, we continued to support a diverse range of initiatives through our corporate volunteer services, education and community services, and financial and in-kind contributions. Collaboration is key to effective programs. Over the years, the Group and our corporate Volunteer Team have built strong partnerships with the government, NGOs, academic institutions and other businesses to support those in need. We strive to serve a range of beneficiaries, including the elderly, students and youth, children, people with disabilities and other groups. We focus our efforts on providing ICT solutions that promote active and smart aging, and enabling students and youth to engage in the digital world.



Our work in the community:

Cumulative number of volunteers since 1995

4,872



Active volunteers in 2017

582



Volunteer hours in 2017

21,131



Ongoing programs in 2017

26



Special programs in 2017

17



2.1 Engaging with the Community

Our corporate Volunteer Team, which consists of employees, their family members and Company retirees, has been active for over 20 years. Volunteer numbers have continued to grow and the scope of the volunteer projects that we support has also expanded.

To recognize and acknowledge the dedication of our staff volunteers, the Group organizes the annual Volunteer Award Ceremony and operates a Volunteer Appreciation Scheme. Our Volunteer Appreciation Scheme grants up to two days of volunteer leave every year to eligible employees participating in community service initiatives.

Nearly **500** days
of volunteer leave were
granted to our volunteers
in 2017



In 2017, our corporate Volunteer Team once again received the Award of 10,000 Hours for Volunteer Service and the Merit of Highest Service Hour Award 2016 (Private Organizations – Category 1) from the Steering Committee on Promotion of Volunteer Service of the Social Welfare Department, for contributing more than 10,000 hours of volunteer service to the community in 2016. The team also won the Silver Award in the volunteer team category of the Hong Kong Corporate Citizenship Programme organized by the Hong Kong Productivity Council and the Committee on the Promotion of Civic Education in 2017. HKT is a Caring Company of Hong Kong Council of Social Service's Caring Company Scheme.



Community service highlights in 2017

The Elderly

- A VR (virtual reality) world tour was organized at an elderly center for the elderly residents to experience world travel.
- Organized smartphone workshops to teach elderly people how to use smartphones and apps.
- Sponsored the “Care for the Elderly Line”, in partnership with the Hong Kong Council of Social Service, to provide free telephone installation and related service to senior citizens.
- Volunteers visited the elderly during festivals to spread festive joy.



Students and Youth

- Supported the Commission on Poverty’s “Life Buddies Mentoring Scheme”. A visit to the 2017 FIA Formula E HKT Hong Kong E-Prix was arranged for the secondary school mentees.
- HKT Education and NETVIGATOR supported the “Inter-School IT Elite Challenge 2017” organized by the Hong Kong Association for Computer Education and the Hong Kong Software Industry Association. The activity aimed to encourage interest in information technology among primary and secondary school students.
- HKT eye held a fundraising painting contest for visually impaired children in partnership with TREATS, a charity that works to improve social integration for children in Hong Kong. This activity promoted social inclusion of children with special needs.

Children

- Volunteers organized a charity balloon sale at the Company’s Annual Dinner 2017 to raise funds for the Playright Children’s Play Association to support its therapeutic play services.
- Volunteers promoted good financial management concepts to kindergarten children via drama and role play in cooperation with the Mandatory Provident Fund Schemes Authority and Po Leung Kuk.

People with Disabilities

- Volunteers worked with the visually impaired crew from the Dialogue in the Dark (Hong Kong) Foundation to organize the 1010-sponsored “Concert in the Dark 2017” voice performance events that took place in complete darkness.
- We provided IT support for long-term disabled patients at Cheshire Home in Shatin.



Others

- The Company joined the “Dress Pink Day” organized by Hong Kong Cancer Fund to increase awareness of breast cancer and raise funds for cancer care service.





The Big Power of Small Things

The Caring Company scheme organized by the Hong Kong Council of Social Service (HKCSS) is an annual program to recognize companies that demonstrate good corporate citizenship. As a recipient of the Caring Company designation, every year we will nominate Caring Ambassadors who have demonstrated a strong commitment to community service and have actively promoted CSR initiatives on behalf of the Group.



"I have been a member of HKT's Volunteer Team for about a year and have participated in many activities. I feel proud and privileged to serve different community groups. I believe every small effort counts in the process of social change. As a Caring Ambassador, I invited many of my colleagues to volunteer their time. My experience has significantly changed my life as I have had the chance to make a positive difference for people in need, and doing so has made me think about what else we can all do to help other people improve their lives. As part of my participation in volunteer activities, I have learned the art of balloon-twisting. I never imagined that such a small thing would bring so much joy and happiness to others. We should never underestimate the power of the small things."

Kathy So

Senior Compliance Officer
(HKCSS-Caring Ambassador 2016-17)

2.2 Using ICT to Support the Community

HKT is in a position to empower the communities in which we operate, and it is our objective to use communication technology to improve quality of life. We use our core competencies to address social needs and facilitate access to ICT knowledge for younger generations.



Girls Go Tech

Digital literacy is an increasingly important skill. We work with various partners to develop and support technology literacy initiatives and campaigns, and to provide easier and more affordable access to ICT knowledge.



We partnered with The Women's Foundation to provide free computer coding and digital skill workshops for girls from underprivileged backgrounds. The year-long, school-based "Girls Go Tech" Program aims to encourage junior secondary school girls to pursue traditionally male-dominated science, technology, engineering and mathematics-related subjects (commonly referred to as STEM subjects) and fulfill their academic and personal potential in an increasingly technology-driven world. Around 400 female students from 10 schools have benefited from the program, with HKT providing support as a technology partner and steering committee member, and by providing seminar speakers.

Creating Quality eLearning

Financial and locational barriers to education can be overcome through eLearning, which can create an educational experience that is both engaging and cost-effective. Through the STEM education scheme, HKT Education offers advanced one-stop eLearning solutions that are supported by the reliable provision of high-speed broadband to schools, as well as cloud storage and Wi-Fi technologies.

In partnership with Google and Apple, the HKT Education Professional Development Academy organizes numerous seminars and courses to train teachers on integrating technology into their teaching and optimize the efficiency of e-classrooms. To date, teachers from more than 300 primary and secondary schools have benefited from the Academy's training courses and professional development programs.



A Smart Aging Community

Hong Kong is experiencing an increase in chronic medical conditions due in part to its aging population.

HKT has developed the eSmartHealth app and web portal that support elderly care centers and qualified health practitioners. The app and portal have been adopted by the Hong Kong Jockey Club (HKJC) Community eHealth Care Project, targeting to support more than 10,000 elderly patients with chronic diseases in the three-year project. This cloud-based monitoring system has been developed to facilitate the Senior Citizen Home Safety Association (the Association) to closely monitor the health conditions of the elderly. The app and portal immediately upload the elderly's health data to the cloud, and allow individual users, care centers and other care givers to efficiently manage health records at the same time. Our eSmartHealth cloud service facilitates big data analysis, thereby improving the Association's understanding of the elderly's health conditions for better resource and service planning. eSmartHealth aims to create a smart aging community.



2.3 Academia and Research

We support research projects developed by local universities and institutes, and capitalize on research-business partnerships to foster the development of the ICT industry in Hong Kong.

Research Partners	Project Topics	Potential Benefits
The Hong Kong Polytechnic University	Video quality assessment	Develop the first benchmarking tool on network quality enhancement for video access
City University of Hong Kong	Network security system and cyberattacks	Facilitate early detection of potential hackers and mitigation of cyberattacks
Hong Kong University of Science and Technology	Smart Wi-Fi	Utilize a combination of advanced sensors/ tools and analytics to improve the accuracy and reliability of Smart Wi-Fi under different scenarios



To help cultivate talented future IT professionals, we have been offering annual scholarships and bursaries to students of computer science, IT and related disciplines for over 20 years. We currently provide scholarships and bursaries to four local universities and have extended our coverage to another two universities for the 2018 academic year.



Building Intelligent Transport Systems

As the mobile network technology leader in Hong Kong, HKT is committed to supporting the Government's Smart City vision and strategy. In March 2017, we partnered with Hong Kong Applied Science and Technology Research Institute (ASTRI) and technology companies Huawei and Qualcomm Technologies to form a Smart Mobility Consortium (SMC) to build a smart mobility system using cellular vehicle-to-everything (C-V2X) technologies. This system can help enhance safe transportation in Hong Kong and supports the Government's Intelligent Transportation System (ITS) strategy.

A vehicle fitted with C-V2X can exchange information with other vehicles, pedestrians and network infrastructure to strengthen driving assistance, traffic management and road safety.

As a member of the SMC, we continue to work alongside the Government and industry stakeholders to drive the commercial potential of C-V2X. We plan to expand the application of the C-V2X technology to sectors such as shipment, ridesharing, home-delivery, insurance, infotainment, and mobile healthcare.



An alert will be issued when two vehicles are approaching the same intersection point.





2.4 Philanthropic Sponsorship

We provided support for many events and initiatives in 2017, including:

- Provided communication systems for Oxfam Trailwalker
- Sponsored the telephone hotlines for fundraising shows for Tung Wah Group of Hospitals, Po Leung Kuk, Yan Oi Tong and Yan Chai Hospital
- Sponsored consultation services hotlines for The Samaritans, Hok Yau Club, Hong Kong Children and Youth Services, and Tai Hang Youth Centre
- Provided telecommunications support for NGOs, including Cheshire Home (a residential home for the disabled) and a pediatric ward at Princess Margaret Hospital
- Supported the “Stargaze Camp for All and the Blind” that promotes social inclusion



Nurturing IT Talent

The Group has been sponsoring the “Shanghai-Hong Kong-Taiwan Youth IT Summer Camp” for over 15 years. The camp aims to nurture young people who are interested in enhancing their IT knowledge and considering a future career in the technology sector. In 2017, 60 students from Shanghai, Hong Kong and Taiwan joined the five-day camp in Taipei. The students visited government departments and leading IT corporations to understand the development of a “Smart City”. They also learnt the skills required to create an e-book.



3. OUR PEOPLE

HKT employs 17,683 employees, who are all key to maintaining our competitiveness and delivering the best services. We are committed to providing a rewarding work environment that encourages collaboration and offers our employees opportunities to learn, grow and succeed at work and in life.

OBJECTIVES

- To attract, develop, motivate and retain suitable people
- To create a vibrant and diverse workforce

MEASURES

- Engage with our employees
- Provide career development and promotion opportunities
- Provide a healthy and safe workplace, and well-being initiatives

As a customer-facing business, our people are our ambassadors in the community. If our employees are happy, work well together and take pride in their contributions, they will provide an excellent service to customers. We are committed to building an inclusive workplace, investing in staff well-being, and ensuring that every HKT employee can reach their full potential.

The dynamic telecommunications sector is an attractive career choice for young people. 38.6% of our employees based in Hong Kong are aged 35 years old or below. Our efforts to encourage and empower our young talent to develop innovative ideas that will enhance our products and services have led to new business opportunities such as Tap & Go and Smart Charge.

38.6%

of our employees are under the age of 35

3.1 Maintaining a Diverse and Inclusive Workplace

An inclusive corporate culture is critical to our business success. Our workforce now comprises employees from over 50 nationalities², with a diverse range of expertise and backgrounds.

HKT respects and upholds fundamental human rights. We prohibit forced labor and child labor across our operations, and do not tolerate discrimination of any kind.

We encourage and support more women to take on leadership roles at the Company – one-third of our leadership roles are assumed by female colleagues.



We are committed to providing employment opportunities for people with disabilities. We have been a partner of the Dialogue Experience Empower (DEE) “Career Empowerment Platform for People of Differences” program since September 2016. This social inclusion initiative offers job immersion opportunities to people with disabilities with the goal of improving their mainstream employment prospects.

In 2017, we provided practical work experience through a business training curriculum and hands-on project experience for post-secondary graduate students with visual, hearing and other physical disabilities. This partnership has helped to promote greater awareness among our employees of how people with disabilities can be included as valuable members of our team. We will continue to support and collaborate with DEE with an aim to serve more beneficiaries.

In recognition of our support for people with disabilities, we were named a Dialogue Experience Corporate Champion for advocating for inclusion and diversity in corporate workplaces.

Growing a dynamic workforce

As the telecommunications service industry is a 24/7 business, the flexibility of our workforce is important to ensure the delivery of high-quality customer service. Working alongside our shift duty staff, part-time, temporary and contract-staff comprised 7% of our workforce in 2017. This empowers our workforce to deliver superior service to customers around the clock and in multiple geographies.

3.2 Connecting with Our People

In line with the rest of our business, our Human Resources (HR) function has undergone a digital transformation that has enhanced our ability to engage with our staff. A new HR portal, conferencing facilities and intranet have increased the scope of communication for employees in various locations and across numerous job functions. The online portal enables employees to be self-sufficient when undertaking routine HR tasks such as personal record updates, leave applications, medical enrolments and preparing for performance reviews. A staff newsletter is published regularly on our intranet to keep all staff up to date with events and Group-wide business developments.

The views and expectations of our people are crucial for ensuring the smooth running of our business operations and for sustaining positive energy amongst employees. We have established channels for employees to share feedback and suggestions with senior management, including face-to-face meetings, “Let’s Chat” sessions with senior management and town-hall-style gatherings. The Joint Staff Council (JSC) provides staff and management with a forum to meet regularly to discuss and exchange ideas on operational efficiency, career development and training, working conditions and the provision of social activities and recreational facilities.

² Figure covers all operations of HKT and parent company PCCW.

3.3 Talent Progression and Succession Plan

We have established a robust succession pipeline for our staff. We work tirelessly to attract and retain the best talent. We nurture the capabilities of our employees with comprehensive training, leadership programs, and continuous development initiatives to ensure their knowledge and skills keep pace with advances in technology and best business practices all the way through to retirement.

Recruiting graduate trainees

As the premier telecommunications service provider in Hong Kong, HKT offers fresh graduates opportunities to build a career in the technology sector by partnering with local and international universities through our Graduate Trainee Program. This program provides fast track pathways to graduates seeking careers in fields ranging from engineering and IT to customer service, marketing and sales.

124 graduate trainees were hired in 2017. The proportion of female graduates hired is at 39%, even though the telecommunications sector was traditionally male-dominated.

Building a strong leadership bench

To support the progression of our young workforce into leadership roles, we offer skills development programs to transition our employees into more senior roles. In 2017, we organized 1,838 learning and development programs and seminars, with each staff receiving on average 15.6 training hours.

The Managerial Development Program enables participants to gain essential leadership skills such as effective coaching, effective delegation and creating an environment of respect and trust. Nearly 300 staff members have taken part in this program since its creation in May 2016.



The Supervisory Development Program aims to facilitate an easy transition for new hires and recently promoted staff at the supervisory level. Each course module focuses on a different set of supervisor skills, including how to motivate staff, promoting team diversity, and how to provide constructive feedback. With a class size of 30 individuals, this program has been run 16 times since May 2016.

To develop leaders who are entrepreneurial, agile and can communicate effectively in a dynamic business environment, we have introduced a Future Leaders Development Program at the middle management level in various business units. The objective of the program is not only to strengthen participants' staff management and customer service skills, but also to enhance business acumen and help them develop the type of innovative and entrepreneurial thinking that leads to cutting-edge product and service ideas and pioneering business strategies.

Cultivating our knowledge base

We are very fortunate to have staff members who have contributed many years of dedication, commitment and loyalty to the Company's growth and accomplishments. In 2017, we presented Long Service Awards to 223 colleagues for their 25 years of service.

In 2017, we had 102 staff retiring with an average of 34.6 years of service with the Company. We have measures in place to facilitate the transfer of knowledge from the highly experienced retiring generation to younger potential future leaders.

3.4 Healthy and Safe Workplace

Employee safety is of paramount importance and we make every effort to provide a safe working environment. Accident prevention and business productivity go hand in hand and deserve equal consideration when selecting new designs, procedures and equipment.

Our Occupational Safety & Health (OSH) Safety Management System has been in operation since 2005. The System is regularly audited and certified as Level Three on the Occupational Safety & Health Council's Continual Improvement Safety Program Recognition of System (CISPROS).



The OSH Unit provides advice, information and training on OSH Issues. In 2017, the Unit launched the Group Safety Charter to uplift our safety standard and strengthen the safety culture.

To ensure employee awareness of safe and healthy workplace behaviors, we provide different trainings for staff members at all levels, including:

- Training of OSH ambassadors and fire safety ambassadors
- Certification in first aid, workplace noise assessment and confined space training
- Internal safety auditor training and accident investigation skills
- Training for staff on site, including ladder assessor training

To further embed a safety culture throughout the Group, we have appointed members of staff to act as Designated Office Coordinators, Designated Fire Officers and First Aiders. These individuals are responsible for carrying out safety inspections to eliminate hazards and providing first-aid assistance in the event of an accident.

Smart Antenna Loader

We encourage staff participation in contributing ideas on OSH improvement.

HKT was presented the Safety Enhancement Program Silver Award for its “Smart Antenna Loader 1.0” project at the 16th Hong Kong Occupational Safety and Health Award ceremony organized by the Occupational Safety and Health Council in 2017.

The loader helps to reduce the safety risks of at-height work by assisting workers to lower antenna poles safely when carrying out maintenance work at cellular sites with rooftop antennas.

Riding on this success, the team is now working on “Smart Antenna Loader 2.0”, with the aim of making the device lighter and more portable for widespread use.



3.5 Caring for Staff Well-being

We recognize the importance of supporting our people’s personal wellness. We have a set number of weekly working hours for each category of employee and a staff roster system to maintain a level of manpower that strikes an appropriate balance between employee well-being and the need to ensure customer satisfaction. All working hours and rest periods are in compliance with the Employment Ordinance and other relevant employment laws and regulations.

To encourage our employees to maintain a healthy lifestyle, we offer two sports recreation sites for staff. Our Sports and Interest Group (SIG) coordinates a number of staff sports teams which competed and won numerous awards in group matches organized by the Inter-Hong Games Association in 2017. This year, the SIG oversaw the running of 16 sports teams, ranging from dragon boating to badminton, and five interest groups such as chess and photography. These activities also help to foster team spirit.

We implement family-friendly measures to make it possible for our people to fulfill both their family and work obligations. We support new mothers by providing special facilities such as designated feeding rooms in offices.

We run regular “Lunch and Learn” sessions on a variety of topics to boost staff well-being and we organized 20 health talks in 2017. These informal training and information sessions help to reinforce our corporate culture and boost employee morale. Maintaining good personal financial health also improves the well-being of our staff members. This year, we organized six sessions of Workplace Financial Wellness workshops for pre-retirees to prepare for their retirement life. Furthermore, we have in place an Employee Assistance Program that provides access to external psychological counselling services.

4. OUR CUSTOMERS

We are committed to serving our customers to the best of our ability by continually elevating our level of service excellence. It is our objective to gain customer confidence in our products and services, and to provide sufficient information to enable customers to make informed choices.

OBJECTIVES

- Provide reliable and quality services and products
- Meet and anticipate customer needs
- Maintain high quality customer service
- Safeguard personal data and information

MEASURES

- Meet and exceed performance targets
- Continuous innovation
- Promote customer service excellence
- Privacy and personal data policies

We adhere to applicable laws governing individual privacy and commercially sensitive information, including those that relate to materials used in our products, advertising and labelling. We have implemented a comprehensive range of measures and procedures to protect, safeguard and control access to inappropriate content by young users. We meet government and statutory body requirements under relevant legislation and laws, including but not limited to the Telecommunications Ordinance, license conditions and codes of practice issued by the Office of the Communications Authority (OFCA).

4.1 Reliable Services and Products, Responsible Network Management

Our stringent procurement procedures ensure that we partner with companies that can provide safe, well-tested and reliable products. We have designated teams looking after the development and management of various customer services and products in the Group. To ensure the safety and reliability of our services and products, and those of third party suppliers and manufacturers, we maintain various product reliability processes including meeting relevant ISO standards, obtaining corresponding certification and meeting prescribed government/statutory body requirements.

The provision of highly reliable services requires responsible network management. To uphold the integrity of our network, our Engineering Team ensures that the Group is in full compliance with OFCA requirements to manage all incidents. To assure customers of our reliable service, we publish our performance pledges on our website.

We achieved our service availability and service restoration targets for 2017.

Item	📶 Performance Target	⚙️ Actual Performance in 2017
csl		
Network Reliability³	99%	100%
Service Restoration⁴	< 60 minutes	100%
NETVIGATOR		
Network Stability⁵	99.99%	99.99%
Service Restoration⁶	99%	99.94%

Building for tomorrow, today

We strive to anticipate and meet the ever-changing communication needs of people in Hong Kong and enhance their quality of life. In 2017, HKT introduced the NETVIGATOR 4x1000M Multi-Use Broadband Service that enables the various members of a family to simultaneously pursue their individual online interests (such as video streaming and gaming) while enjoying high-quality service that offers a minimum guaranteed speed, and a high level of data privacy and security.

HKT's Fiber-To-The-Building (FTTB) coverage reached 88.3% and Fiber-To-The-Home (FTTH) coverage reached 85.6% of all households in Hong Kong.

Our mobile communications network of more than 3,000 sites provides comprehensive mobile coverage in Hong Kong, including in all transportation tunnels and along all railway lines. We also have dedicated indoor and outdoor sites at major university campuses. We provide fiber connectivity to over 500 schools in Hong Kong to support the deployment of high-speed broadband and Wi-Fi in education.

In 2017, 3,400 members of our engineering staff received more than 9,000 days of training and professional development. Our engineers hold a range of certifications and accreditations in IT and product knowledge, etc. As of end of 2017, our engineers held a total of 1,882 professional certificates and institution memberships.

FTTB coverage

88.3%

FTTH coverage

85.6%

³ Availability of the core network or core network uptime in a set observation period.

⁴ Mean time for recovering a fault in the core network following its discovery and identification.

⁵ Availability of broadband network.

⁶ Provide restoration of services for customers within two calendar days.

4.2 Customer Service and Satisfaction

In 2017, portable ramps were provided at seven csl/1010 shops and nine HKT shops with entrance steps to enable easier access by wheelchair users and the elderly. Addresses of these retail shops are published on our corporate website.

Open and direct communication with our retail customers is vital to maintaining and improving our high level of customer service. Our customer service staff can be contacted via various channels, including service hotlines, website live chat, online enquiry, Facebook, e-mail, post or fax, as well as in person at retail stores and service centers.

My HKT is an e-platform that offers customers access to a wide range of services. Customers can manage their e-bills and get instant online support. As of end of 2017, My HKT had 1.05 million registered accounts.

Ensuring quality standards

Customer centric thinking is a core HKT value. We aim to provide quality service across the entire spectrum of our business. Our performance targets are set out in our service charter, which can be viewed on our corporate website. We value customer feedback on our products and services. Where a response is required, we aim to provide an initial reply within three working days and to resolve complaints within four working days. In 2017, over 95% of customer complaints were handled within four working days, which is a satisfactory level in the industry. As part of our ongoing service enhancement efforts, our dedicated service management team and technical experts work collaboratively to identify and address the root cause of an issue or complaint to reduce the chances of a recurrence.

A Call Monitoring Program assesses the performance of our customer service specialists, who were also required to receive up to 10 hours of call service training per month, amounting to an average of over 100 hours per person in 2017.

We also invite customers to participate in a Customer Transaction Survey and Net Promoter Score Survey at the end of each call and visit to help us evaluate our service quality and gain valuable customer feedback. Furthermore, our Mystery Shopper Program is an ongoing service performance benchmarking tool. Each retail location is audited at least twice a month. Over 1,800 Mystery Shopper visits take place annually across our retail locations.

In 2017, we received 36,408 compliments from our customers⁷, while the number of complaints decreased from 2,409 in 2016 to 1,758. In a recent customer satisfaction survey, 82% of customers responded that they were “satisfied” or “very satisfied” with the performance of our customer service specialists. Reports on customer suggestions, compliments and complaints are regularly reviewed by management.

In addition, we participate in the Customer Complaint Settlement Scheme operated by the Communications Association of Hong Kong. The scheme offers a non-judicial forum for resolving deadlocked disputes between customers and telecommunications service providers.

Customer compliments

36,408

⁷ Individual customers from fixed-line, NETVIGATOR broadband and mobile businesses.

Service excellence awards

To help drive our efforts to continuously upgrade our service, we have established Service Excellence Awards (SEA). SEA is open to all staff and certain external contractor staff, who may submit their own entries or be nominated by colleagues or supervisors on an individual or team basis. Every quarter, up to 45 individuals and eight teams will be named as SEA winners.



The 30 most meritorious individual SEA awardees during the year are further honored as annual winners at the end of the year.

4.3 Customer Data Privacy and Security

It is essential that our customers can trust us to safeguard their personal information. Ensuring the privacy and security of customer data is a key operating principle and top priority for the Group.

In addition to complying with relevant laws and regulations, our robust governance structure and comprehensive range of information privacy and data-security procedures protect individual privacy and safeguard commercially sensitive information. Our employees also receive regular training on data privacy-related issues. In 2017, there were no known issues of non-compliance in this area.

Our ISO 27001-certified IT security management systems keep our customer information secure. The systems also help us assess risk and identify new security measures. We rigorously follow the guidelines set out in our Document Retention Policy, Corporate Security Policy and Corporate Security Principles for securely storing physical records containing personal data. Staff access to personal customer data is granted strictly on a “need-to-know” basis and access to records and data without authorization is strictly prohibited.

We maintain substantial security infrastructure, including anti-virus and anti-spam software, network intrusion prevention systems, data loss protection and, more recently, Threat Intelligence Exchange and Advanced Threat Defense infrastructure, to minimize cyberthreats and the potential occurrence of malicious software infections, hacking attempts and accidental/deliberate attempts to misappropriate corporate data. Our internal IT and support teams are trained to monitor our network to detect any suspicious traffic and prevent potential cyber risk.

Our NETVIGATOR broadband Internet service provides customers with information and advice on identifying suspicious online content and activities such as phishing e-mails through its “Safe Internet Tips” and “Customer News” channels. Our network engineers will also immediately take necessary security measures, such as blocking any new incoming messages from the phishing e-mail sender addresses and regularly updating our e-mail anti-spam system. Customers can also stay informed about online threats by following our NETVIGATOR and customer service Facebook pages, where relevant notifications are posted.

5. OUR SUPPLY CHAIN MANAGEMENT

Our commitment to maintaining the highest ethical and professional standards not only applies to our own business operations but also those of our suppliers and business partners. We aim to build trusting supply chain relationships as we work together to deliver quality services and products. We engage over 2,000 suppliers, from whom we source a wide range of goods, equipment, materials and services. Around 75% of our suppliers are based in Hong Kong.

OBJECTIVES

- Encourage suppliers and contractors to adopt sustainable initiatives
- Zero bribery and corruption

MEASURES

- Group Purchasing Policy and Principles
- Supplier Code of Conduct
- Annual performance review for major suppliers and contractors
- Regular supplier reviews

All HKT suppliers must adhere to our Supplier Code of Conduct (the “Code”), which clearly communicates our expectations. The Code’s requirement includes full compliance with applicable laws and regulations, including strict adherence to occupational health and safety laws. Suppliers must also respect basic human rights, ensure their operations are free from forced labor and child labor, and manage their operations with consideration for the environment.

Any acts of bribery and corruption are strictly prohibited. We have well-established procedures in place for staff to report concerns relating to potential conflict of interest. Our “no conflict of interest” standard is set out in our CR Policy and Bribery, Gifts and Entertainment Policy.

We actively encourage our suppliers to adopt environmentally and socially responsible behavior by making them aware of our own CSR commitments. Our purchasing and procurement decisions are governed by our Group Purchasing Policy and Principles, through which we integrate social responsibility considerations into our supplier selection process.

5.1 Supplier Selection and Monitoring

When assessing new suppliers, we go beyond quality, cost, service and delivery capabilities to consider their commitment to CSR. Potential suppliers, vendors and business partners are vetted by our stringent procurement procedures prior to their engagement with us, which may include completing an assessment survey that enables us to evaluate their performance.

Our Group Purchasing and Supply Department undertakes annual performance reviews with our major suppliers and contractors, which form an important part of our process for monitoring the overall performance of our business partners, including adherence to our Supplier Code of Conduct. Any unsatisfactory ratings or areas of concern are communicated to the relevant supplier for rectification or improvement. If no improvement is observed or the breach of standards is significant, we will consider terminating the contract and, in the worst cases, blacklisting the supplier. In addition to this major annual review, we conduct regular supplier reviews and visits throughout the year. In 2017, we conducted 100 supplier visits and took the decision to blacklist four suppliers as they were not able to meet our expectations and requirements.

As an ISO 9001:2008-certified company, our quality management system ensures that our products consistently meet regulatory requirements and customer expectations. In 2018, we aim to achieve the ISO 9001:2015 standard. ISO 9001:2015 places greater emphasis on quality risk management with the adoption of the “High Level Structure”, which applies the “Plan, Do, Check, Act” model for continuous improvement in quality management across our procurement process.

6. OUR ENVIRONMENT

HKT is committed to protecting the environment. We integrate environmental sustainability into our business operations through internal policies and guidelines, which include:

- Energy and Water Management Policy and Guidelines
- Gas Emissions Reduction Policy
- Recycling procedures and programs

OBJECTIVES

- Reduce energy consumption and carbon emissions
- Responsible waste management
- Help customers become more environmentally friendly

MEASURES

- Modernize exchange buildings, equipment and infrastructure
- Upgrade and electrify our fleet
- Promote recycling
- Develop green ICT solutions to optimize and reduce resource consumption

Our ongoing environmental protection and green management efforts have received great recognition. In 2017, HKT received the Gold Award in the media and communications sector at the Hong Kong Awards for Environmental Excellence (HKAEE) 2016. The HKAEE Award is regarded as one of the most prestigious and reputable award schemes in Hong Kong. HKT was awarded for its best performance in environmental management and serving as an excellent example for our peers in leading the Hong Kong community to create a more sustainable environment.



Mr. Alex Arena, Group Managing Director of HKT (right), receives the HKAEE Gold Award from former HKSAR Chief Executive Mr. Leung Chun-ying.

6.1. Sustainable Resource Use

We strive to be a good steward of natural resources through robust environmental management, and investment in and adoption of new technology.

Energy use

Our exchange buildings, telecom/IT equipment, infrastructure and offices account for most of our energy consumption. The Facilities Management Team is responsible for implementing new technologies and procedures to reduce electricity consumption. For exchange buildings, we review our energy usage and management systems every three months. We have also established optimal temperature set-points of 24°C to 26°C for offices, buildings and facilities.

We have been upgrading our facilities since 2004. To date, we have replaced conventional air-cooled systems for more energy efficient water-cooled chillers at 25 exchange buildings. Air conditioning currently accounts for about 30% to 35% of our total electricity usage, down from about 40% in 2012. In 2018, we will replace more existing chillers with water-cooled systems. These upgrades will lead to a 20% reduction in energy consumption of these chillers⁸.

For four consecutive years, HKT has won the Biggest Units Saver Award (Organization) of the Power Smart Energy Saving Contest organized by Friends of the Earth (HK). From June 2016 to May 2017, we recorded an eight million kilowatt hour (kWh) reduction in the electricity consumption of our exchange buildings resulting from the network modernization and installation of water-cooled chillers.



Mr. Peter Lam, Managing Director of Engineering (center), receives the Biggest Units Saver Award.

⁸ Estimation of reduction is based on information in EMSD guidance "Water-cooled Air Conditioning Systems (WACS)": https://www.emsd.gov.hk/en/energy_efficiency/water_cooled_air_conditioning_system/index.html.

Carbon emissions

We strive to reduce our greenhouse gas emissions through enhancing energy efficiency and reducing energy consumption across our operations. Our efforts in this regard include:

Fleet

We use more efficient and environmentally friendly vehicles to help protect human health and the environment. In 2017, we acquired five electric vehicles and upgraded 18 vehicles that had been in use for more than 10 years. In the next four years, we will gradually upgrade 60 more vehicles, representing 30% of our fleet.

Refrigerants

The Montreal Protocol requires the phasing out of ozone-depleting hydrochlorofluorocarbons (HCFCs) by January 2020. We are continuing to replace our remaining HCFC-based air conditioning systems with more environmentally friendly refrigerants (e.g. hydrofluorocarbons).

E-billing

We offer our fixed-line, **eye**, IDD, NETVIGATOR broadband and mobile customers the option to receive account statements and other notices in electronic rather than paper format. 98% of our broadband and 97% of mobile customers as well as nearly 34%⁹ of our fixed-line, **eye** and IDD customers signed up for e-billing. In 2017, nearly 13 million e-bills were generated, which collectively saved 39 million sheets of paper.

We began voluntarily providing our carbon emissions data to the Environmental Protection Department's Carbon Footprint Repository for Listed Companies in Hong Kong in 2014, making us one of the first companies to engage in this non-mandatory environmental reporting practice.

⁹ E-bill service was offered to fixed-line, **eye** and IDD customers in November 2016. There are indications that customers have been gradually taking up this option.

6.2 Waste and E-waste Management

Our approach to waste management reflects the key principles of the waste hierarchy: avoidance at source, reuse, recycling and reprocessing, proper waste treatment and responsible waste disposal. We implement and regularly review the Company's recycling practices and programs, and raise staff awareness of best practices for resource conservation.

Our recycling programs¹⁰

We have programs promoting the recycling of used toner and ink cartridges, paper, scrap metals (which include copper, iron and steel), as well as scrap materials such as scrap cables, scrap telephones, obsolete devices and accessories, modems and router, set-top boxes, waste electrical and electronic equipment (WEEE) and transmission equipment.

In 2017, we launched a Printer Cartridge Collection Program. Used cartridges are sent for refill or recycling, depending on their condition. Those that cannot be reused will be dismantled by our recycling partner. For every cartridge collected, our recycling partner will make a donation to local environmental charity The Green Earth to support its environmental education initiatives.



E-waste recycling

Our mobile business has run the "Help Yourself • Help the Needy • Help the Earth Handset Recycling Program" since 2015. This initiative allows customers to donate their old mobile phones and accessories, such as batteries and chargers, at our shops. Our Government-endorsed recycling contractor collects donated items and checks their condition. Handsets in good condition are refurbished and sent to a network of social organizations which then distribute them to low income families. In 2017, a total of 12,806 mobile phones and accessories were collected, of which around 30% were donated to the underprivileged. We also donated computers and equipment to the underprivileged via Caritas Computer Workshop.



¹⁰ Since most of our recycling initiatives are combined efforts of HKT and parent company PCCW, we report our recycling performance on a combined basis.

Hazardous waste

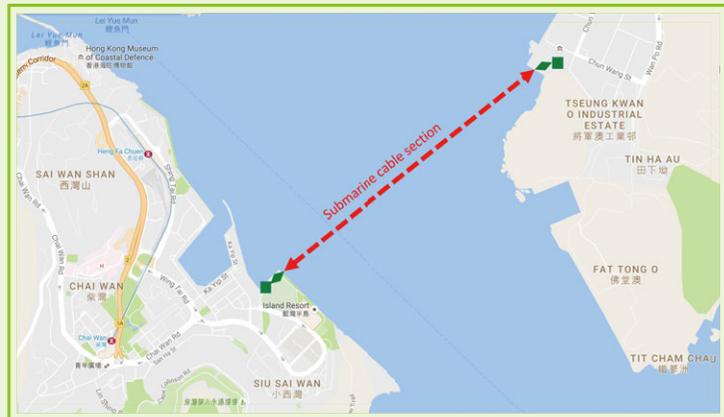
Although our Company produces limited hazardous waste, we must still responsibly dispose of items such as florescent tubes, industrial batteries, WEEE and general office batteries. We hire specialist contractors and licensed waste collectors to handle the recycling and management of such waste.

Non-hazardous waste

Our non-hazardous waste consists of general office waste and construction waste generated by the renovation of our retail outlets. To ensure our waste disposal methods are in line with local regulations, we engage professional cleaning service providers and contractors to handle this waste.

Environmental Assessment for Ultra Express Link Project

To meet the rising demand for high speed and high capacity connectivity from data center operations, we are constructing the Ultra Express Link, a three-kilometer-long submarine cable connecting Tseung Kwan O Industrial Estate (TKOIE) and Chai Wan. This cable will not only provide robust, reliable, lower latency and diverse connectivity, but will also support the development of TKOIE into an important Asian data center hub.



We assessed the potential environmental impacts of this project before commencing work, and have established the following measures to minimize these impacts.

- Stockpiles of materials will be covered with tarpaulin or similar fabric to minimize run-off to the adjacent marine waters during the rainy season.
- All construction waste and drainage will be handled and/or disposed of in accordance with the Waste Disposal Ordinance.
- Relevant standard mitigations set out in the Air Pollution Control (Construction Dust) Regulation will be implemented to minimize dust emissions.
- To reduce noise disturbance in adjacent residential areas, various measures have been implemented, such as the use of quiet Powered Mechanical Equipment (PME) and installation of noise-reducing barriers.

Following its approval by the Environmental Protection Department, work on the project commenced in September 2017 and is expected to be completed in 2018.

6.3 Green ICT Solutions

We help our customers adopt more environmentally friendly lifestyles and business practices by incorporating green ideas into the design of our products and services, which include solutions for electric vehicles (EV), homes and schools.

In partnership with CLP Holdings Limited, we address the entire EV charging process and offer a one-stop-service to assist individuals and businesses with green charging solutions. Through this Smart Charge service, we aim to encourage the wider adoption of EVs and contribute to creating a cleaner environment.



Our Smart Living service utilizes advanced technology to bring life-enhancing comfort, convenience and efficiency into the homes of our customers. By using either a customized remote control or mobile devices, our customers are able to automate and easily control home settings such as lighting, curtains and air-conditioning, as well as entertainment and security systems. These enhanced controls also enable customers to better manage their energy use and expenses.

HKT Education has developed the HKTE Parent app for parents to receive and respond to school notices, including the ability to sign and submit school e-notices using their smartphones. This digital solution also allows schools to receive feedback from parents in a timely manner and streamline administrative tasks. HKTE Parent has reduced the collective consumption of paper at participating schools by about one million sheets per year.

The process of student admissions has traditionally involved a lot of paperwork. To help schools manage admissions more efficiently while enhancing their environmental performance, we have created an e-admission system solution for kindergartens, primary and secondary schools. The system enables applicants to submit admission forms online. The system was also adopted by the largest music and speech festival in Hong Kong in 2017.

6.4 Employee Environmental Awareness

Our internal newsletter publishes a regular "Green Matters" column, which provides information on environmental issues and the Group's green initiatives. We have launched a set of "Go Green" labels in all our offices. Our staff are reminded to turn off equipment that is not in use and to save water, paper and food.



Green awareness activities offered to colleagues include learning how to turn food waste into eco-enzyme detergent.

Green volunteering

Our Environmental Protection Volunteer Service Group has been active for over 20 years. In 2017, over 370 volunteers participated in 14 environment-related programs in partnership with seven charity and social services groups. Program highlights include:

Organization	Program
Green Power	Green Power Hike On-site support for the annual fundraising activity aimed at encouraging our future generations to appreciate and cherish nature. 
WWF-Hong Kong	Weeding at Mai Po Nature Reserve Volunteers removed invasive plants to protect the natural ecosystem in this conservation area. 

Other environmental programs

We participated in the following initiatives in 2017:

Organization	Program
<p>WWF-Hong Kong</p>	<p>WWF Earth Hour</p> <p>The event aims to raise public awareness of low-carbon living. We switched off the signage lights of 13 office buildings, exchanges and shops for one hour on March 25.</p>  <p>The poster features a hand pressing a power button on a tree branch. Text includes '60+ EARTH HOUR 地球一小時', 'EARTH HOUR 地球1小時', '熄出再生力量 攜手延續未來', '25.3.2017 8:30pm', '請即上網頁簽名支持 Sign up now earthhour.hk', and logos for HKT, cs!, and 1010. A commitment statement reads: '承諾支持世界自然基金會地球一小時 we are committed to WWF's Earth Hour'.</p>
<p>Friends of the Earth (HK)</p>	<p>Suits for Success</p> <p>Nearly 300 pieces of business clothing and accessories collected from our colleagues were donated to young graduates from underprivileged families.</p>  <p>A photograph of a man in a white shirt and tie holding a dark suit jacket on a hanger. He is standing in an office hallway with a door behind him that has a poster on it. A shopping bag is visible in the foreground.</p>

ASSURANCE REPORT



VERIFICATION STATEMENT

Scope of Verification

Hong Kong Quality Assurance Agency (HKQAA) has been engaged by HKT (HKT) (SEHK: 6823) to undertake an independent verification for the "Our Environment" section and the related environmental performance data stated in its Environmental, Social and Governance Report 2017 (The Report).

The scope of HKQAA's verification covers the data and information associating to HKT's environmental performance as described in the "Our Environment" and "Performance Data Summary" sections of The Report for the period of 1st January 2017 to 31st December 2017.

Level of Assurance and Methodology

The process applied in this verification was based on relevant international standard. Our evidence gathering process was designed to obtain a reasonable level of assurance as set out in the standard for the purpose of devising the verification conclusion. The extent of this verification process undertaken was provided for the criteria set in The Environmental, Social and Governance Reporting Guide of The Stock Exchange of Hong Kong Limited.

In order to understand the process that HKT adopted to ascertain the key environmental issues and impacts, the Report compilation process was discussed. Also, system and process for collecting and collating environmental performance data, as well as the overall presentation of these data in The Report were verified. Our verification procedure performed covered reviewing of relevant documentation, interviewing responsible personnel with accountability for preparing the reporting contents and verifying the selected representative sample of data and information. Raw data and supporting evidence of the selected samples were also thoroughly examined during the verification process.

Independence

HKT is responsible for the collection and presentation of the information presented. HKQAA does not involve in calculating, compiling, or in the development of the Report. Our verification activities are independent from HKT.

Conclusion

On the basis of our verification results and in accordance with the verification procedures undertaken, it is the opinion of the HKQAA's verification team that:

- The Report illustrates HKT's environmental performance in a balanced, comparable, clear and timely manner;
- The environmental performance data and information states in the Report are reliable and complete.

The Report reflects appropriately HKT's context and materiality of its environmental issues and allows stakeholders to have a clear understanding of its commitments and stewardship towards environmental management.

Signed on behalf of Hong Kong Quality Assurance Agency

Connie Sham
Head of Audit
February 2018

EXTERNAL CHARTERS AND MEMBERSHIPS

External Charters

Name of Association	Name of Charter
Environment Bureau	Charter on External Lighting
Labour Department/ Occupational Safety & Health Council	Occupational Safety Charter
Occupational Safety & Health Council	Charter on Preferential Appointment of OSH Star Enterprise

Memberships

Name of Association	Type of Membership
eLearning Consortium	Executive Committee Member
Employers' Federation of Hong Kong	Corporate Member
Girls Go Tech, The Women's Foundation	Technology Partner, Council Member
Hong Kong Management Association	Corporate Member
The Green Earth	Green Earth Companion, Water Category 2017-2018
The Hong Kong Council of Social Service	Caring Company Patron's Club - Coral Membership 2016/17

PERFORMANCE DATA SUMMARY

HKEX ESG KPIs		2017 Data
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Disclosure statement	Refer to 6. Our Environment section
KPI A1.1	The types of emissions and respective emissions data	
	I. Sulfur oxides (SOx) – Direct	4.24 kg
	II. Nitrogen oxides (NOx) – Direct	4,930 kg
	III. Particulate matter (PM) – Direct	229.89 kg
KPI A1.2	Greenhouse gas (GHG) emissions and intensity	
	I. GHG emissions – Scope 1 ¹¹	6,080 tonnes CO ₂ -e ¹²
	II. GHG emissions – Scope 2 ¹³	241,449 tonnes CO ₂ -e
	III. GHG emissions – Scope 3 ¹⁴	968.15 tonnes CO ₂ -e
	Total GHG emissions (I+II+III)	248,497 tonnes CO ₂ -e
	GHG emissions intensity per employee ¹⁵	22.81 tonnes CO ₂ -e/employee
KPI A1.3	Hazardous waste produced	
	I. Solid waste ¹⁶	336.90 tonnes
	II. Waste electrical and electronic equipment (WEEE) disposal ¹⁷	162,293 pieces
KPI A1.4	Non-hazardous waste produced	
	I. General waste ¹⁸	794.31 tonnes
	II. Construction waste ¹⁹	156.50 tonnes

¹¹ Scope 1 emissions generated from HFC and PFC emissions for refrigeration; diesel from fleet and standby emergency generators, and petrol from fleet.

¹² "tonnesCO₂-e" is the short form of tonnes carbon dioxide equivalent.

¹³ Scope 2 emissions generated from the electricity consumed by HKT major operations with individual meters.

¹⁴ Scope 3 emissions generated from our office paper consumption. This figure is reported on a Group basis comprising HKT and parent company PCCW.

¹⁵ As at December 31, 2017, the number of employees in Hong Kong was 10,894, which is also the basis for electricity and water intensity calculations.

¹⁶ Solid waste includes industrial battery (valve-regulated lead-acid battery), office batteries and fluorescent tubes.

¹⁷ The figure is reported on a Group basis comprising HKT and parent company PCCW.

¹⁸ General waste includes mainly general office waste.

¹⁹ Construction waste from renovation of shops.

HKEX ESG KPIs		2017 Data
KPI A1.5	Measures to mitigate emissions and results	Refer to 6. Our Environment section > 6.1 Sustainable Resource Use
KPI A1.6	Waste reduction initiatives and results²⁰	
	I. Scrap materials recycled ²¹	3,413,388 pieces
	II. Toner and ink cartridges recycled	1,983 pieces
	III. Paper recycled	145.45 tonnes
	IV. Scrap metals recycled ²²	26.44 tonnes
Aspect A2: Use of Resources		
General Disclosure	Disclosure statement	Refer to 6. Our Environment section
KPI A2.1	Direct and/or indirect energy consumption by type and intensity	
	I. Electricity	384,696,815 kWh
	II. Electricity intensity per 1,000 employees	35.31 kWh/1,000 employees
	III. Towngas ²³	N/A
	IV. Petrol fuel – vehicle fleet	49,810 L
	V. Diesel fuel – vehicle fleet	217,844 L
	VI. Diesel fuel – standby emergency generators	54,882 L
KPI A2.2	Water consumption in total and intensity	
	I. Water ²⁴	405,097 m ³
	II. Water intensity per employee	37.19 m ³ /employee

²⁰ These figures are reported on a Group basis comprising HKT and parent company PCCW.

²¹ Scrap materials such as scrap cables, scrap telephones, obsolete devices and accessories, modems and router, set-top boxes, WEEE and transmission equipment.

²² Scrap metals recycled include copper, metal and steel.

²³ Towngas is primarily consumed at our staff canteens. The operation of these canteens is outsourced to third-party operators and we do not have direct operational control over this gas consumption.

²⁴ Water consumption of HKT major operations with individual meters.

HKEX ESG KPIs		2017 Data
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Refer to 6. Our Environment section > 6.1 Sustainable Resource Use > Energy use > 6.4 Employee Environmental Awareness
KPI A2.4	Description of water efficiency initiatives and results achieved	Water consumption is mainly due to general office/building use. There is no material concern about water consumption. Please also refer to 6. Our Environment section > 6.4 Employee Environmental Awareness
KPI A2.5	Total packaging material I. Shopping bags	21.89 tonnes
Aspect A3: The Environment and Natural Resources		
General Disclosure	Disclosure statement	Refer to 6. Our Environment section
KPI A3.1	Description of significant impacts of activities on the environment and natural resources and the actions taken	Our operations incur no material adverse impact on natural resources.

REFERENCES TO HKEX ESG REPORTING GUIDE

A. Environment		HKT's Comments
Aspect A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	6. Our Environment
KPI A1.1	The types of emissions and respective emissions data.	Performance Data Summary
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Performance Data Summary
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Performance Data Summary
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Performance Data Summary
KPI A1.5	Description of measures to mitigate emissions and results achieved.	6. Our Environment > 6.1 Sustainable Resource Use
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	6. Our Environment > 6.2 Waste and E-waste Management, and Performance Data Summary

A. Environment		HKT's Comments
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	6. Our Environment
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Performance Data Summary
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Performance Data Summary
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	6. Our Environment > 6.1 Sustainable Resource Use > Energy use > 6.4 Employee Environmental Awareness
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Performance Data Summary
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Performance Data Summary
Aspect A3: The Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.	6. Our Environment
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Performance Data Summary

B. Social		HKT's Comments
Employment and Labour Practices		
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	3. Our People
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Note*
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Note*
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	3. Our People
KPI B2.1	Number and rate of work-related fatalities.	Note*
KPI B2.2	Lost days due to work injury.	Note*
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	3. Our People > 3.4 Healthy and Safe Workplace

* This KPI will be reported in the future.

B. Social		HKT's Comments
Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	3. Our People > 3.3 Talent Progression and Succession Plan
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Note*
KPI B3.2	The average training hours completed per employee by gender and employee category.	We report on the average training hours per employee. For more details, please refer to 3. Our People > 3.3 Talent Progression and Succession Plan
Aspect B4: Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	3. Our People
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	3. Our People
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	N/A

* This KPI will be reported in the future.

Operating Practices		HKT's Comments
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	5. Our Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	We engage over 2,000 suppliers, around 75% of them are based in Hong Kong. For more details, please refer to 5. Our Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	5. Our Supply Chain Management
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	4. Our Customers
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	4. Our Customers > 4.2 Customer Service and Satisfaction
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	4. Our Customers
KPI B6.4	Description of quality assurance process and recall procedures.	4. Our Customers > 4.2 Customer Service and Satisfaction
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	4. Our Customers > 4.3 Customer Data Privacy and Security

Operating Practices		HKT's Comments
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	1. Corporate Social Responsibility at HKT > 1.2 Our Policies
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	1. Corporate Social Responsibility at HKT > 1.2 Our Policies
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	1. Corporate Social Responsibility at HKT > 1.2 Our Policies
Community		
Aspect B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	2. Our Community
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	2. Our Community
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	2. Our Community

HKT Trust (A trust constituted on November 7, 2011 under the laws of Hong Kong and managed by HKT Management Limited)
and

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The Share Stapled Units are listed on The Stock Exchange of Hong Kong Limited (SEHK: 6823).

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